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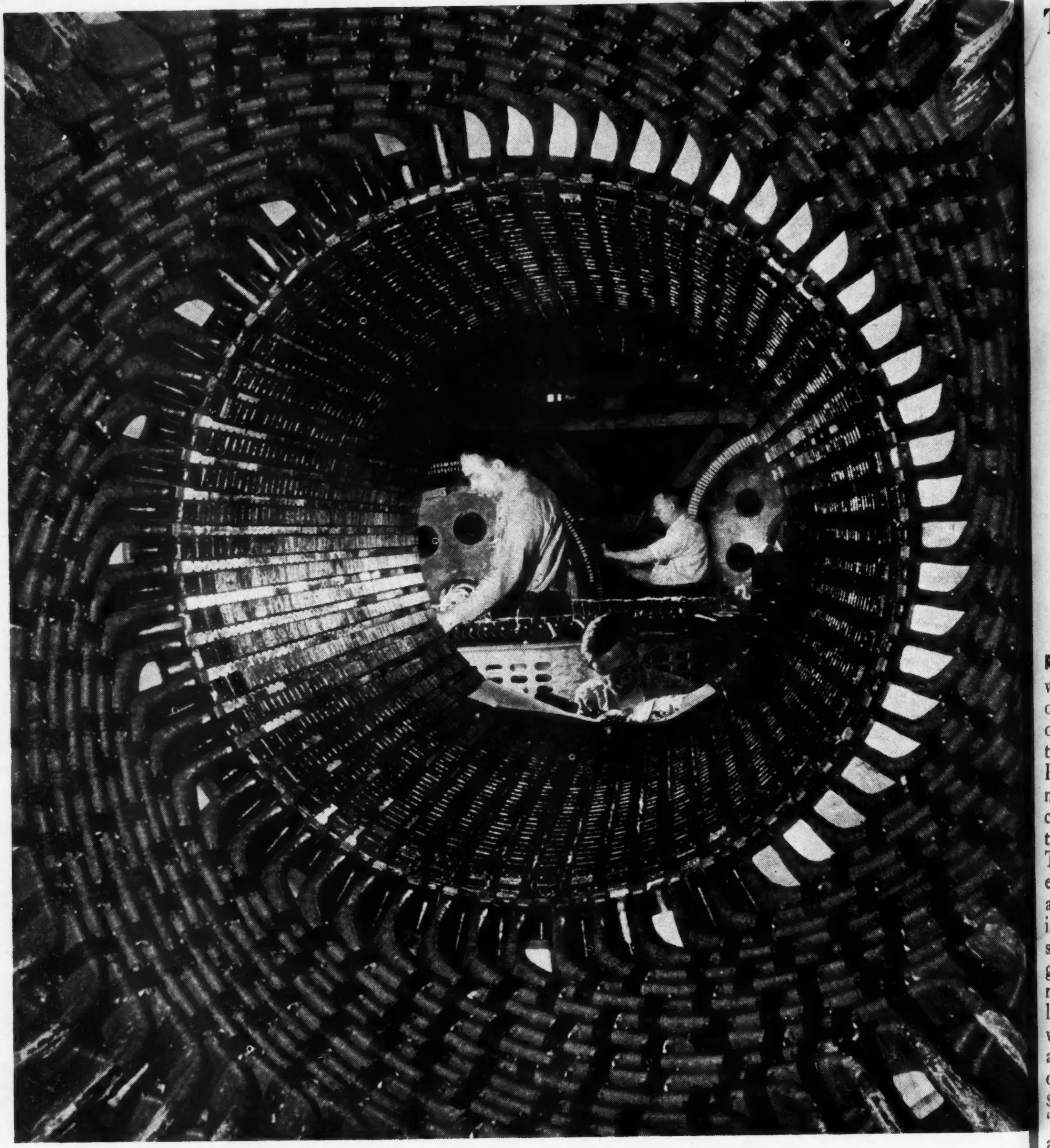
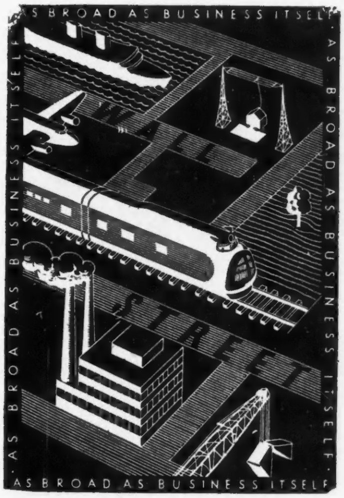


The stock market is thinking about peace and the problems of industrial readjustment to be solved in making the transition from a war-economy to a peace-economy. One can anticipate that investment sentiment will evolve into a selective pattern, most favorable to industries which are readily adaptable to peace production and which can count on the largest backlogs of accumulated civilian demand. **See page 504** **for a penetrating study of varying post-war industrial potentials, related to consumer needs.**

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

REALISTIC WAR FINANCING . . . There is more than war financing in the War Loan Drive which is to open September 9th. The government has warned off commercial bank subscriptions so as to concentrate on individuals. It requires 15 billions. The Federal Reserve Board breakdown shows that commercial bank demand deposits of individuals in this country (including farmers' deposits, which are partially commercial in intent) are about 15 billions. This is the exact figure of the loan. The government estimates that of the 29 billions in savings banks and time deposits and 15 billions in currency, most is held by individuals. At the highest, therefore, the savings of individuals do not exceed 40 billions. The government thus proposes to take two-fifths of the national individual savings in one fell swoop. That leaves 25 billions for the 134 million Americans, of which several billion must be deducted for foreign account. The net savings available for consumption, or for reserves, after the Loan, will thus be about $166 *per capita.* This is a far cry from the so-called "inflationary gap" threatening the country with "runaway inflation" due to excess demand for commodities. The government success in the War Loan drive, in and of itself, would annul much of the basis on which the inflationary legend is built up.

But it is doing much more than that. The banks have been the main factors in inflating deposits in order to effect subscriptions to government debt. By refusing to appeal to them, the ten billions or so, (that is, two thirds of the new 15 billions War Loan) which inflationists thought would be pumped into bank credit, will not be provided in this unsound manner. Hence the inflationary possibilities are being reduced by 25 billions in one short season! Add to that the 20% withholding tax, which works out to a payroll tax of five billions or more above Victory tax, and Senator George's proposals for a conservative tax program tapping another five billions, and the whole inflationary trend, which persisted until the spring of 1943, is being reversed. If anything, corporations stand a good chance of being short of needed working capital and the people will have just enough to tide them over the difficulties of transition from global war to transitional Oriental war. This profound reversal of the earlier war trends has not been sufficiently outlined: it is time that glib prophets of inflation forgot their slogans and come down to earth.

TOWARD GOVERNMENT CARTELS . . . Two developments which are increasingly important in the set-up of future international trade are the partly government-controlled cartel arrangements, to function in several countries, and secondly the "public corporation." The latter is gaining rapidly as the corporate expression of government interest in situations which the government does not choose to administer. The Reconstruction Finance Corporation was typical of earlier excursions into this field, but that was almost a government bureau. The pattern of the Bank of England or the German Railways Co.

is more nearly the type of institution being projected. It has the venturesomeness and elasticity of private business, and it is out to make money, yet it is to be limited by government control and subjection to government policy. Apparently the government is seeking to create a Commodity Stabilization Corporation with power to intervene in world markets so as to direct all raw materials, and a Raw Material Development company, to promote production of wanted metals and plant products. These companies in turn are to be subsidiary to the new International Bank, which is a glorified Federal Reserve Bank with international shareholding and jurisdiction. Lord McGowan, in England, one of the wealthiest men living, has proposed a series of Anglo-American cartels, operating through such flexible, autonomous administrative bodies, very much in the way that the Steel and Chemical cartels once operated throughout the European continent.

The particular objects of these astounding cosmic corporations are not here in question. Whether they are attainable or not, and whether their evils may not cause them to be rejected with relief, is also beside the point. The supersession of both direct business corporations and direct government by a third form of mixed government and enterprise, without the complete characteristics of either, warrants close examination.

MANPOWER MOBILIZATION . . . Rumors are flying thick and fast that the President has reversed his stand on the Austin-Wadsworth bill and that he now favors the compulsory disposition of manpower. The threatened legislation which would exempt fathers permanently from the draft, of course, diminishes pressure on those exempted to accept military service or else serve in the war effort. Since this legislation may make manpower supply unpredictable and prevent the carrying out of war production schedules, there is not much time to be lost.

But the political difficulties are not to be underrated. The President has opposed this wise and farseeing measure because of the opposition to labor unions. They have felt that if persons are to be inducted into industry, the closed shop is ended, since the War Department would assign labor to tasks without asking whether or not the inductee wished to join a union. The closed shop is the one principle unionism can least afford to compromise upon, since it is a gateway to the enforcement of demands, however excessive. It is urged that the President could follow the example of England where Labor has not merely acceded cheerfully to industrial conscription but even actively proposed it. But in England, Labor has about a third of the Ministry, is part of the top government apparatus and enforces pretty much absolute unionization through the shop stewards and other indirect union pressure agents. In the United States millions of people would resent being forced to join unions and pay on the check-off and their hatred of this compulsion may be destructive of the objects sought for in production. On the other hand compulsory introduction of inductees (non-union), into union shops, will certainly embitter professional unionists. The government has found no formula comparable to the British, whereby Labor is an integral part of the government and yet the direction of all policy is subordinated to the war effort, so that labor will even accept abbreviated rights so long as it feels that its governmental position avoids its longterm weakening. While that solution would not suit our book, since almost all non-union people, and that is four-fifths of the nation, is hostile to that outlook, the government will have to construct other face-saving formulas if the Austin-Wadsworth law is to function as it ought if victory is to be assured.

THE LONDON MARKET . . . The chorus of praise for London's stock exchange grows louder as the contrast in behavior between the two markets, New York and its old rival, became more accentuated since the fall of Mussolini. It is argued by the perpetual Anglomaniacs that the British have "confidence," "coolness," "realism," "even balance" whereas the forlorn Yankee has all the opposite traits and rushes to sell on the slightest provocation. What the gentry who urge this forget is that the London market is based on the elementary fact that a large part of England's supplies and materials for manufacture are received at no cost whatever, by lease-lend, and that the length of the war may even buttress the earning power of English companies whereas the Americans, who hand out the substance without an economic equivalent, are more in fear of taxes to make good that largesse. Also the British do no tax capital gains at all. Anything anyone makes in the London market, even a million pounds, is his, no matter how badly the country needs the money for war. Here, within six months, there are no such advantages, and after six months, only restricted advantages. Now the rich Briton, who has to pay 15 shillings in the pound and even more in income tax, is going to keep on bidding for investments in which he gets 20 shillings in the pound when he sells, instead of the mere 5 shillings or less from income. Since losses are not deductible, as they partly are with ourselves, there is no inducement to sell, that is, no inducement of a purely fiscal nature. A market operating on the basis of gifts from abroad and fiscal privilege cannot legitimately be compared to the American market facing up to taxation and with every fiscal regulation geared against the trader. More significant than the foregoing consideration, though, is the shrewd calculation of British speculators that whatever happens after the war can be turned to their advantage. If Europe is conservative, London resumes her position as the clearinghouse of mankind. If Europe is radical she will bleat for subsidies to keep the old London show going. In any case, Uncle Sam pays and they take, world without end.

As I See It! BY CHARLES BENEDICT

LESSONS FROM GERMANY'S FAILURE

It is apparent to every one that Germany has lost her great gamble to acquire an empire—and not because she lacked men of capacity and power, and the wherewithal to fight this war. Her failure was due to grave errors of judgment—to the belief that force could dominate any situation and that strong will and cunning could break down men's minds. Instead of facing realities, the Germans sought to dominate without regard for social and economic alignments the world over.

Their greatest error was in alienating the United States—a nation which on the whole was under the impression that Germany had been badly treated at Versailles and which had leaned in the direction of Germany and away from Britain, because of financial and economic difficulties resulting in rivalries between Americans and Englishmen in the post-war period after World War I.

In attempting to straddle her position vis-a-vis these two great powers Germany played on British hopes for the retention of the empire, and on American resentment against Britain as the inspiration and instigator of debt cancellation. The Germans believed that this wound would continue to remain open and that it would blind us to the danger of a Nazi-controlled world.

Germany erred further in her estimation of American intelligence in advancing so violently her theory of race supremacy. Instead of sympathy she aroused anxiety as to her intentions. The Reich had counted on the snobbery of highly placed people to join her in an exclusive set for domination of the world under a fascist-totalitarian system, which would deprive the great masses of their rights and reduce them to serfdom. Her plans did not allow for sufficient consideration of the American democratic system which gives the American people power through their electoral vote.

The next irreparable blunder was the anti-Semitic campaign. The destructive forces set in motion brought utter economic dislocation, so that Germany —a nation depending on exports—lost practically all her foreign trade and alienated industry and capital the world over.

As a disciple of force Germany ignored the fact that persecution only sharpens the perceptions of the persecuted. Yet Hitler himself had risen to power propelled by "Gott Strafe England"—and a hatred of the French who had lorded it over the Germans at Versailles.

Indeed, one can well ask what madness prompted anti-Semitism when the so-called Jewish problem had practically ceased to exist as a result of the intermarriage that had taken place between Jews and Gentiles in Western Europe in the past several decades. It had in fact reached such proportions that in another hundred years Jewish blood would have been so greatly diluted as to be almost indistinguishable, for the process of absorption had been going on at a great pace in proportion to the liberalization in the treatment of the Jews since the eighteenth century. Sound minds, instead of destroying this ancient people, would have found it much more practicable to amalgamate their blood with the other races in order to preserve its finest elements.

In Germany itself Jewish blood was to be found in almost all the great (*Continued on page* 552)

Jesse Seligman, whose unselfish financing of the United States was a great factor in the preservation of the Union 1861-1865

Gauging Market's Next Move

We advise that investment purchases be deferred and that long commitments should be scaled down now or on any extension of the current rally, with special emphasis on disposal of equities with least assured post-war potentials.

BY A. T. MILLER

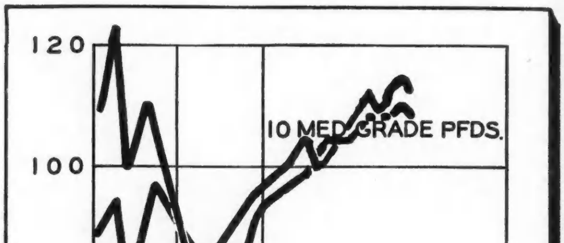
If the reaction which began with the fall of Mussolini could be considered merely a technical correction of an over-extended speculative position, it could be reasoned—on the basis of the recent evidence—that the decline is probably over and that the major upward movement should be resumed in the near future.

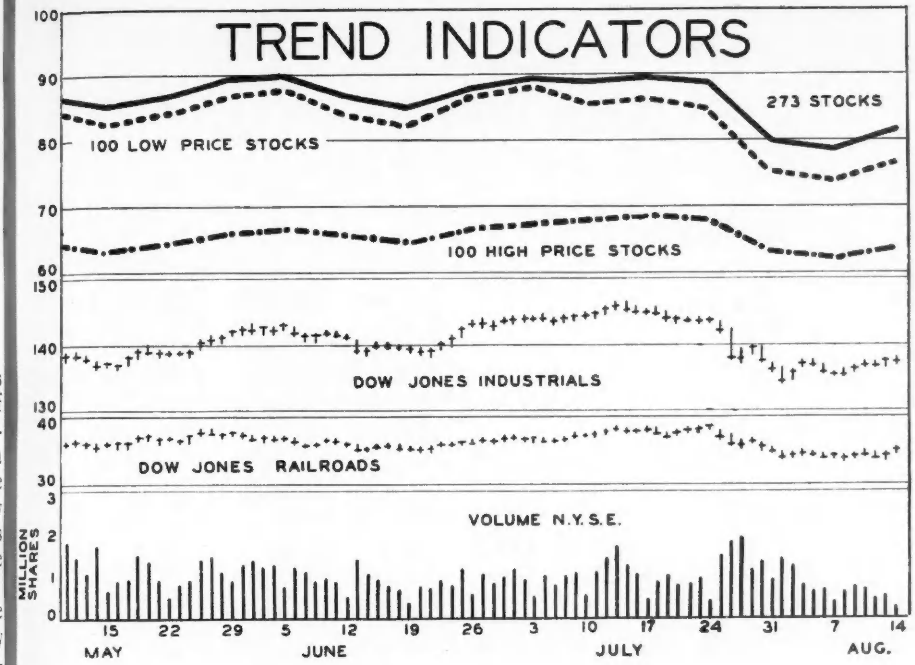
At the lows the market, on a broad average basis, had cancelled approximately one-fourth of the entire advance from the bear market bottom of the spring of 1942; and more speculative stocks, including low-price issues and rails, had retraced some 30 per cent of the previous maximum advance. For a market in which the margin position is notably light, that could be considered a fully ample correction so far as the purely technical status is concerned. Moreover, the abundantly demonstrated tendency of present-day markets is for intermediate reactions, coming at infrequent intervals, to be concentrated, sraigh-line affairs, devoid of flat spots or more than nominal rallies. The scope of the decline, the ability of the industrial average to hold for the past two weeks above the August 2 low of 134 and rally above the 137 level in recent days—all of this would seem to give technical support to the argument of bullish observers that the reactionary trend is over.

But, as we stated two weeks ago in this analysis, the change in the market is much more than a technical phenomenon. It is a readjustment of investment and speculative thinking. For some fifteen months stock prices had been going up, fed by vast expansion in the supply of investible funds and sparked by confidence in the theory—probably soundly based—that there will be an extended period of business prosperity after the war. Recent market action does not imply any basic change in this consensus as regards post-war prospects—but when investors and speculators were forced to look upon peace as a concrete matter, rather than a vague generality, it at once became apparent to them that (1) there are many blind spots and imponderables in that indefinitely-defined period of coming transition between full war and full peace; and that (2) the great majority of the stocks most widely favored "for the pull" were rather richly priced in relation to any conceivable level of earnings in the transitional-adjustment period, and to any probable earnings of the first year or so following actual completion of industrial reconversion.

This is not to say that the present investment consensus—or our own opinion—is bearish. What has happened is that the previously prevailing pattern of investment and speculative thought has been definitely broken; and has not yet been replaced by a new pattern in which stockholders, or holders of idle investment funds, have confident conviction. A new pattern will develop in due course, but it seems to us that it will take at least some weeks to "jell" or more likely several months.

So far as the market prospect is concerned, we think it is substantially beside the point whether Italy is out of the war next week or next month; or whether peace with Germany comes this year or some time





in 1944. From here on, for an indefinite time, the market will strive to appraise the problems of peace —as well as the promise of peace—whereas, before the spell was broken, it was able to look at only the bullish potentialities of peace. We think any significant reversion to a "longer war" psychology is most improbable; and that, even if it could develop, it would be very questionable as a bull factor.

The imponderables which now incline prudent investors not to expand their stock holdings—and which move them to lighten positions on rallies—include:

When will the war terminate in Europe? How long will it take to defeat Japan? What will Congress do about taxes this autumn? How will contract cancellations be handled? What will the Government do with its huge arms-plant investment? How will the Government dispose of the vast surplus stocks of commodities that it will hold when the war ends? Will the Government get tougher or more "reasonable" in contract renegotiations? How long after the war will it be before there is some downward revision in corporate taxes? Will inflationary pressures be seriously checked by near-term moves the Administration is known to be planning? How long will be the reconversion period of various industries to peace production? How will war developments affect the 1944 Presidential election? What about unemployment and consumer willingness to spend in the transition phase? What kind of political and social systems will take shape in Europe and the Far East, and can we do capitalist business with them?

In short, the market seems to us to be in a questioning mood—not likely to be promptly resolved by the mere week-to-week news, nor to be altered by technical rallies. Whatever the long-range inflationary potential, cash—to the extent of a conservative, but not complete, liquidity — looks quite "good" to us for the present. We think money is unlikely to lose further significant purchasing value—either in terms of stocks or commodities — over an intermediate period of indefinite, but probably fairly substantial, duration. The rally in progress as this is written may extend to the 140 level or thereabouts—or even conceivably, though we are skeptical of it, go close to the previous high just above the 145 level; but we believe it prudent to consider it a technical recovery and to utilize it for scaling down of commiments, especially those whose post-war prospects seem least assured.

Though they *may* prove wrong in a longer future, we see no percentage in arguing today with clear-cut selective differentials in this market. Stocks which at recent lows had given up the largest proportions of their previous total bull market rise are: shipbuilding, 126 per cent; aircraft, 70 per cent; copper and brass fabricators, 52 per cent; non-ferrous metals, 50 per cent; rail equipment, 42.5 per cent; paper, 40 per cent; steel and iron, 39 per cent; automobile accessories, 35 per cent; railroads, 30 per cent.

In only one of these, the auto accessory group—in which selected companies have excellent post-war prospects—can sharp decline be validly considered due primarily to previous attainment of excessive prices, and hence without basic significance. Excepting the minority of strong-credit roads, and roads —Southern, for example—favored by "growth" territory, the rails must, we think, be regarded with skepticism, though they should be carefully weighed before decision to sell or retain, on an individual basis. The other groups listed here seem on the whole to be "behind the 8-ball."

Groups showing superior resistance, in terms of percentage of total previous advance cancelled, include meat packers, motion pictures, air lines, finance companies, department stores, food brands, food stores, liquors, soft drinks, textiles, tires and rubber, variety stores, gold mining, dairy products, farm equipments, drugs and toilet articles, petroleum.

Even in the most favored groups, however, we think the time has not yet come for individual selections—or purchases.—Monday, August 16.

Length of Post-War Boom In Various Industries

BY E. A. KRAUSS

NOT SO MANY months ago, anyone who broached the subject of post-war business in more than just a cursory manner was frequently rebuked with the retort: "Let's win the war first." This attitude is now changing rapidly. Recent military and political developments in Europe saw to that. Today, the question of post-war business has assumed new importance, the need for planning ahead increasing urgency. Clearly, post-war business is now regarded an early probability rapidly assuming concrete shape rather than something in the distant future, lacking distinct outline.

On one subject, there is a fair measure of agreement among all interested quarters. This is that the reconversion phase following the war will lead into a period of high industrial activity and profits, based on the satisfaction of demand for consumer goods deferred by the exigencies of war. The prospective length of this period of high activity has been subject to considerable speculation and controversy; there is almost unanimity as to its expectancy but opinions differ sharply in respect to its intensity and duration.

In this article, an attempt is made to measure both on the basis of indicated backlogs of demand and capacity to produce. Any such undertaking is of necessity tentative in view of the unpredictability of many factors which may importantly influence final conclusions. Moreover, two basic elements are, of course, assumed. First, the existence of adequate purchasing power as indicated by the enormous wartime rise in individual savings, and second, that there will be no important change in the main characteristics of the structure of consumer wants. The former is intimately linked up with adequate post-war employment; the latter, while unpredictable, should at any rate be a gradual process if changes do occur.

After World War I, it took about two years for the initial satisfaction of deferred demand. In point of time, we have already equalled our participation in the last war. In terms of civilian privation, we have gone far beyond the rigors of 1917-18 even though our civilian economy is still well above the bedrock level of total war. Normally, then, it would be reasonable to assume that the time acquired to catch up with deferred demand will be longer than the two years after the close of the first war, even if the present conflict were to end today. However, conditions are not comparable. To approach a true picture, we must proceed from different concepts in conformity with basic conditions as they existed at the time of our entry into the war.

For the purpose of our study, we shall assume termination of the war by the end of this year, an expectation no longer unreasonable or improbable. Any lengthening of the war will naturally only serve to lengthen the indicated periods of high post-war activity.

The latter will vary considerably for the various industries. For such non-durable items as clothing and shoes, two years will probably be sufficient to satisfy deferred demand and restock inventories to normal levels. In spite of war restrictions, such primary wants as clothing continued in fair supply to the mass of consumers. The two-year textile cycle ruling before the war therefore would suggest this to be an adequate period for the return to normality in this field.

A similar interval is indicated in the food field

Two years should suffice for the replenishment of our depleted stocks and the relief of initial want abroad until war-torn lands can again be brought under cultivation and the pre-war mechanism of the world food trade restored to normal function.

In the consumer durable goods field, very considerable variations are indicated. The backlog of automobile demand, for instance, is estimated by the end of this year to be around eight million passenger cars. Since an average retooling period of six months is anticipated until assembly lines can again move, a total backlog of nine million cars can be assumed. This equals about two years output at the 1929 record level when over 4.7 million passenger cars were turned out by the industry. Added to this backlog must be the normally accruing replacement demand of about three million passenger cars annually. Satisfaction of this enormous potential demand is primarily a matter of production policy. Broadly speaking, the capacity of the automobile industry is unlimited although of course a certain optimum capacity does exist. Just how great it is today nobody knows. In 1929, capacity was estimated at some eight million cars, based on an eight-hour day. Potentially, it could be tripled by the simple expedient of operating plants and assembly lines 24 hours a day with three eight-hour shifts. However, even if the needed manpower were available, nothing of the sort is likely to be attempted after the war irrespective of the probably enormous scramble for cars. To spread employment and business as well, the industry more likely will continue to adhere to the eight-hour day, pointing to an annual output of no more than six million passenger cars, at most, and perhaps less, depending on the adequate flow of parts from its satellite industries. Producing on this basis, the industry besides meeting the regular annual replacement demand of some three million units, would be able to work off annually about one-third of the existing backlog. In other words, a three-year period of high prosperity is indicated until the market would revert to normal demand. This calculation excludes the prospective post-war demand for trucks and the export potential (except Canada which is included), both being obscured by special factors. The estimate of a three-year boom period is therefore leaning heavily towards the conservative side; this is equally valid for the parts industry which should do a splendid replacement business on top of heavy original equipment demand.

Another important field, that of electric appliances, is more difficult to appraise. Here, the accumulated backlog of demand, in view of tremendous precautionary buying during 1941 and early 1942 until production was stopped, appears in some instances far less. The market for radio receivers, for example, even today must be regarded as fairly well saturated. In 1941, fully 13.7 million receiving sets were sold, and 11.5 million sets in 1940, compared with about 8.1 million in 1936 and 1937, both good normal years. Early in 1942, close to 30 million homes in this country were equipped with radios and the number of electric home radios in use is estimated at about 37 million sets. Additionally, about seven million automobile radios are believed in operation. Considering all factors, the backlog of demand by the end of this year should be no more than about 5 million sets. Assuming industry operations after the war will be held to around ten million units annually, the same as the high 1939 output, and allowing for an annual normal replacement demand of seven million units, it would take the radio industry not quite two years to clear up the backlog.

This is a liberal calculation, fully allowing for growing use of portable receivers and automobile radios. But it must also be borne in mind that output during 1939-41 reached the tremendous total of 35.7 million sets; of this at least 85% or about 30.34 million receivers, of modern design, should be still serviceable, almost more than one set for every home in the United States. The potentialities of television and frequency modulation, probably only slow to grow and difficult to appraise, should not change our estimate very much though together with the promising outlet offered by the aviation industry it may have the effect of extending the boom period somewhat further. The same is implied by the fact that 1941 production contained a certain number of military receivers. The indicated backlog may thus be somewhat larger than calculated. Still and all, two years appear a fair approximation of the prospective *boom* in radio though good business may continue longer. The industry's situation for years has been one of over-capacity.

Less favorable are prospects in the electric refrigerator field. It also shows a high degree of saturation. In 1942, 72% of the homes wired for electricity were equipped with refrigerators and a total of some 19.4 million units was installed. Here, too, 1941 production rose sharply in anticipation of a subsequent shortage and came to 3.55 million units

An hop crop being cultivated by a Caterpillar Twenty-two and 9-point Moline uni-tiller with drag on a Salem, Oregon, ranch.

against 2.71 million in 1940 and 1.95 million in 1939. The indicated backlog of demand is about two million units, equal to one year's output based on 1939 production. Assuming a high annual post-war output of 3.5 million units (equal to 1941) and a normal yearly demand of about 2 million units, it would take about 1¼ years to dispose of the accumulated backlog.

The deferred demand for washing machines should amount to some 1.5 million units, equal to about 1940 production. At an annual output rate of 2 million units (about 1941 production), it would take three years to satisfy accumulated demand plus normal sales but the industry no doubt will be able to step up operations considerably beyond that figure and a balance may be reached much earlier.

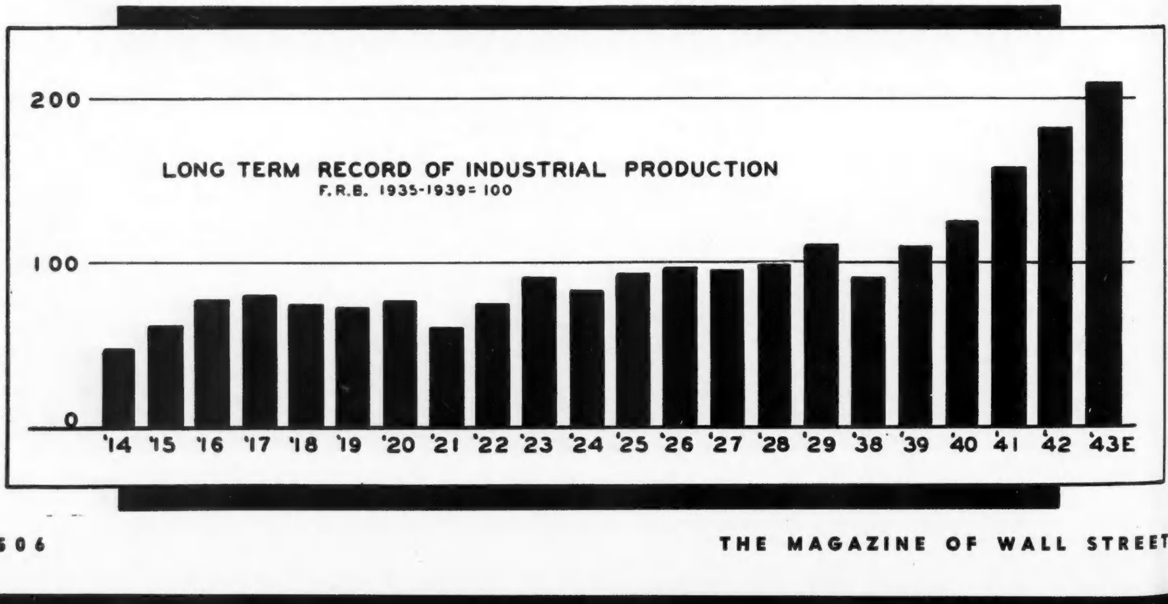
Calculated on a similar basis, prospective periods of high activity for other appliances should shape up about as follows: vacuum cleaners, one year; oil burners, two years, provided that the pre-war growth trend continues which at present appears somewhat doubtful; electric ranges, virtually none since 1941 output was practically double normal production; electric ironing machines, no pronounced boom period indicated as the calculated backlog is very small as a result of sharply stepped up 1941 production; flat-irons, about one year on basis of 1939 production; electric clocks, about one year on basis of the high 1941 production; air conditioning, about two years, depending on the production rate which is likely to climb steeply.

As far as oil burners, air conditioning, electric ranges and other house appliances are concerned, the calculations do not include the stimulating effect of the expected post-war housing boom. This may become an important factor and lengthen somewhat the indicated periods of high activity despite already liberal calculation of normal demand. All together, in the consumer durable goods field except automobiles, indications point to an average period of about 1½ years of not necessarily extreme boom conditions but certainly sustained excellent business on basis of existing demand backlogs. This would appear disappointing, viewed against frequent highly optimistic estimates of post-war potentials in these industries; however, heavy anticipatory buying resulted in much smaller backlogs than commonly assumed.

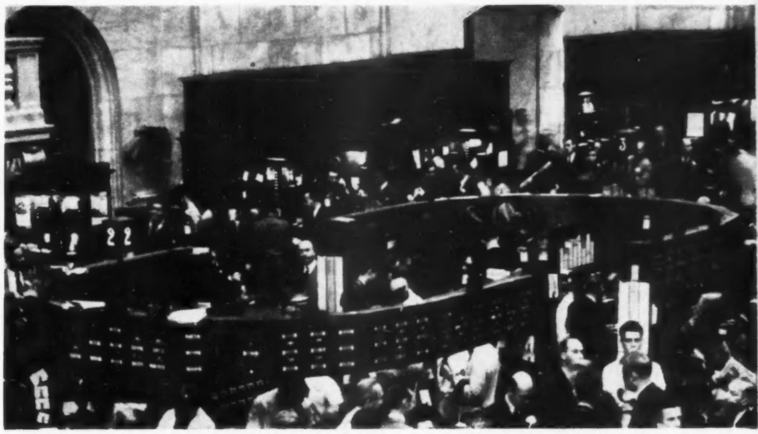
In some capital goods industries, the picture appears much more favorable because, for reasons having their root in pre-war conditions, the vacuum developing in various fields may take much longer to fill.

The construction industry, for instance, is expected to contribute in a major degree to the post-war industrial recovery. Pent-up demand, especially in the private residential field, is such that it cannot possibly be fully satisfied during the first post-war recovery cycle and may conceivably run into the subsequent cycle after an interruption caused by a setback in general activity once deferred needs for less durable goods are met. A marked expansion in building activity is assured on basis of existing housing shortages alone; it will be further stimulated by Government action making building construction the logical vehicle for special expenditures to tide industry over the transitional period ahead.

The farm machinery industry is another candidate for a prolonged post-war business revival. The backlog of unfilled demand at the end of this year is conservatively estimated as high as $1.25 billions, equal to more than two year's output on basis of 1943 production which, virtually relieved of earlier onerous restrictions, should again approach a fair peace-time volume. However, abnormally high demand should continue far longer in line with continued high agricultural purchasing power since farm prices are not likely to decline drastically for several years after the war. When farm prices eventually do decline, farmers by then will have accumulated substantial surplus funds as the rising net farm income has also been cumulative to some extent because of the dearth of available spending outlets during wartime. Hence future demand for agricultural equipment should not (*Please turn to page* 544)



10 Selected Peace-Time Leaders



Trading-post at the New York Stock Exchange

—With Post-War Expansion Assured

BY THE MAGAZINE OF WALL STREET STAFF

WITH prospects of an early return to peace-time business, either fully or partially, assuming increasingly more concrete shape, thoughts of many investors are naturally centering ever more on the outlook picture ahead. This, for most segments of industry, is admittedly good, once transition from war work is achieved, favoring all components of the groups which by virtue of deferred demand or latent growth factors are in line for post-war prosperity. Yet there is room for selectivity, to point out those companies which stand out from the rest in respect to ability to profit from future opportunities or otherwise possess desirable attributes as vehicles for investment in our post-war future. With this in mind, we are discussing hereunder a number of companies selected especially as desirable investment media within industry groups whose outlook *per se* is regarded undeniably promising.

Chrysler Corporation

One of the "big three" in the automobile industry, Chrysler after the war should continue its record of outstanding success though in view of its now relatively mature position, future progress will hardly be as sensational as its race to prominence during the twenties and thirties. The company, financially and otherwise, is well prepared to take advantage of the excellent industry prospects which after the war point to a prolonged period of very high and profitable activity. Chrysler's fundamental position is well known; it is well entrenched in its field, has a capable management and alert engineering staff, and its financial status is excellent. With the cessation of war work, the concern, like all automobile makers, faces a formidable retooling problem; however, it has well prepared against that day. At present it can draw on reserves totalling $31.43 millions to smooth its path to peace-time activity. Additionally, inventory was sharply written down to guard against possible losses and plant valuation, despite continuous additions for war production purposes, has been depreciated to an extent that net plant today is actually lower than a year ago. In other words, the company, besides setting aside what appears more than adequate reserves for post-war contingencies, is successfully maintaining an efficient cost structure which

	1937	1939	1940	1941	1942	1943
High	135¼	94⅜	91⅝	72⅛	70¼	85⅜
Low	46⅛	53⅝	53½	41⅝	43⅞	67⅝

should prove an important factor in a normally highly competitive field. The only cloud on the horizor is the still unknown effect of renegotiation but what ever the results, they should be well covered by existing reserves.

The company's integration within the automotive field in the past has been an important factor, enabling it to climb rapidly to its present-day position of prominence. Its increasing diversification may play a similar role in the future, assuring steady growth. Chrysler has a big stake in several promising fields, notably air-conditioning, refrigerating, marine and industrial engines, and special heating equipment. In all of them, there exists a sizable backing of deferred demand, presaging excellent sales for a considerable period. At present, the stock sells about mid-way between this year's high and low; it still has a long way to go to match its 1937 top. For the long pull, the stock in our estimation has excellent market potentialities.

Minneapolis-Honeywell

One of the newer "blue chips," this stock has made many friends. It is essentially a growth stock and there have been many enthusiastic appraisals of the company's post-war prospects. They are undeniably good, and market action of the stock has reflected this fact. The company is a leading maker of automatic heat-regulating and temperature controlling devices and through acquisition of other concerns has entered the field of high-temperature industrial controls as well as the manufacture of automatic space-heating control units for large buildings. It should benefit importantly from the expected post-war boom in building construction; additionally, the company has a stake in electronics, adaptable in many ways to old and new devices in which it is interested.

	1937	1939	1940	1941	1942	1943
High	120	85½	54	45½	59½	76¾
Low	53	44¼	33¼	34	35½	58

There are other potent reasons to expect, after the war, a better than average showing from this company. There is a large deferred demand for most of its normal lines, bolstered by the trend towards modernization of old buildings and equipment; the potentialities of the prospective building boom must be viewed with particular accent on residential building; the company's strong patent position and its growing activity in electronics are additional long-term assets. Finances are excellent and reconversion is expected to offer few problems due to the similarity of its war-time output to regular lines. Air-conditioning is another growing field where the company has made a promising start. The stock's excellent resistance in recent weak markets attests to the favorable market opinion of the company's future.

U. S. Rubber

As the world's largest fabricator of rubber products, the company's post-war potential is obvious. Deferred demand for tires is enormous and there is a heavy backlog of mechanical rubber products the manufacture of most of which is prohibited or severely curtailed for the duration of the war. Normally over half of the company's revenues come from sales of tires and tubes and its tire building capacity is close to 70,000 units a day. The concern has important and well-established outlets, foremost of which is General Motors; normally it also does a heavy replacement business in tires. Presently, U. S. Rubber makes a wide line of war products and plays a leading role in the synthetic rubber industry. When its third synthetic rubber plant in Los Angeles goes into production in September, the company will have a rated annual capacity of 150,000 tons of Buna-S rubber, equal to nearly one-quarter of normal peace-time consumption of rubber in this country.

	1937	1939	1940	1941	1942	1943
High	72⅜	52¾	41⅝	28½	25⅛	46
Low	20	31¼	15	13½	13⅝	25¼

Under the duPont aegis since 1928, the company since that time has made important progress. It materially strengthened its trade position, sharply reduced funded debt and demonstrated satisfactory earning power under normal conditions. Aided by extensive non-tire business, earnings sources normally are more widely diversified than those of its competitors; this should prove an important advantage with the return to a competitive post-war economy. The company in 1942 deducted from earnings $15.48 millions for losses arising from enemy occupation of its Far Eastern rubber plantations. Should the latter eventually be recovered, it would mean a clear net profit. Finances are strong and reconversion problems should be few, if any. The company is well prepared for peace-time business which should be productive of rather more stabilized earnings than in the past. This in a sense applies to all tire companies, but should be particularly apparent with U. S. Rubber whose operating efficiency has been steadily on the increase. Recent market action of the stock has reflected a favorable opinion anent its outlook. Once post-war prospects begin to crystallize, it should find more decisive expression, marketwise.

Standard Brands

A processor and distributor of a diversified group of food products, the company with its new management appears to be slated for good progress, reflecting the fruition of organizational changes and the policy of expansion recently undertaken. Its conservative fiscal policy should aid this trend. Here, too, market action has been an expression of confidence in future prospects; the stock during the recent sell-off receded only a trifle from the high of 8 achieved during the bull market. While the company's progress during war-time, though noteworthy, is necessarily limited by existing restrictions, their eventual relaxation or removal should provide the opportunity for really worthwhile gains.

	1937	1939	1940	1941	1942	1943
High	16¼	7¼	7⅞	6⅝	5	8
Low	7½	5⅜	5	3¾	2¾	4¼

Earnings of late have been stabilizing and while dividends are limited, they should improve over the longer term. In spite of the company's development program, the financial position remains satisfactory with working capital at the end of last year amounting to $45 millions. For a variety of good reasons, the management recently proposed a "reverse split" under which one new share would be issued for each four shares now outstanding. The proposal will be ratified by a special stockholders meeting in September. Standard Brands is a big company (1942 sales over $144 millions) in an essential field. Now that it has obtained able management, it should progressively get into its stride. Substantial progress on the come-back road has already been made and should continue. For the patient holder, we think the stock is capable of a very large percentage rise.

Paramount Pictures

Paramount common for some time has been the active leader of the moving picture group; its high for the year of 30 exceeded the 1937 top of 28¾, and it since reacted to around 25. The excellent market showing of the stock is not based on earnings alone, which exceeded expectations. Probably more important was the progressive improvement in the company's affairs, culminating in the conversion of its outstanding 6% preferred stock into common and the retirement of some $5 million of bank loans early this year. Withall, the company has come a long way since its reorganization in 1935. At present, it is enjoying its most profitable period with earnings for the first half year estimated by the company at $7.38 millions gainst $5.82 last year.

	1937	1939	1940	1941	1942	1943
High	28¾	14⅛	10⅞	16⅛	17½	30
Low	8½	6⅛	4¼	10	11¾	15½

The motion picture industry has well demonstrated its earning power in peace and war. Paramount's improved competitive position combined with fully integrated operations assures full participation in the benefits arising from heavy public spending for entertainment. The longer term prospects point to a fair degree of sales and earnings stabilization at relatively high levels which should find progressive expression in the market price for the stock.

International Harvester

This leading maker of agricultural machinery should benefit very materially from the sustained and heavy demand for its products, arising from high agricultural purchasing power and earlier production curtailment which resulted in a very severe shortage of farm implements at a time when they were badly needed to step up output of foodstuffs. The company, foremost implement maker by a wide margin, has the advantage of being fully integrated, operating its own iron ore and coal mines, steel mills and coke ovens. Few corporations possess the outstanding financial strength of this enterprise. The company

	1937	1939	1940	1941	1942	1943
High	120	71⅝	62¾	57	52	74¾
Low	53½	45⅞	38	42¼	40	56⅝

has large reserves for post-war contingencies. Working capital amounts to $286 millions, and cash and marketable securities alone come to $161 millions. It has the largest sales and research organization in its field and normally is a heavy exporter with foreign sales averaging about 25% of total output. Both domestic and foreign sales prospects after the war are held excellent.

The development and perfection of a mechanical cotton picker, to be introduced after the war, is another feather in Harvester's cap. It constitutes an outstanding research and engineering achievement and should lead to interesting sales possibilities. From the point of view of income return, the stock even after its recent reaction to around 67, against the year's high of 74¾, holds no particular attraction; however, this should be more than offset by the existing market possibilities.

Continental Can

In its 42 plants strategically located throughout the country, this company produces about one-fourth of the total domestic metal container requirements. Other plants are operated in Cuba and Canada where the concern enjoys a well-entrenched position. Roughly two-thirds of output normally comprises cans supplied to packers of various food products; the remainder are containers furnished to oil, paint, chemical, drug, tobacco and numerous other industries. Supplementary activities include the manufacture of can-making machinery, corrugated boxes, crown caps and fibre containers; since the outbreak of war, various military materials are being produced.

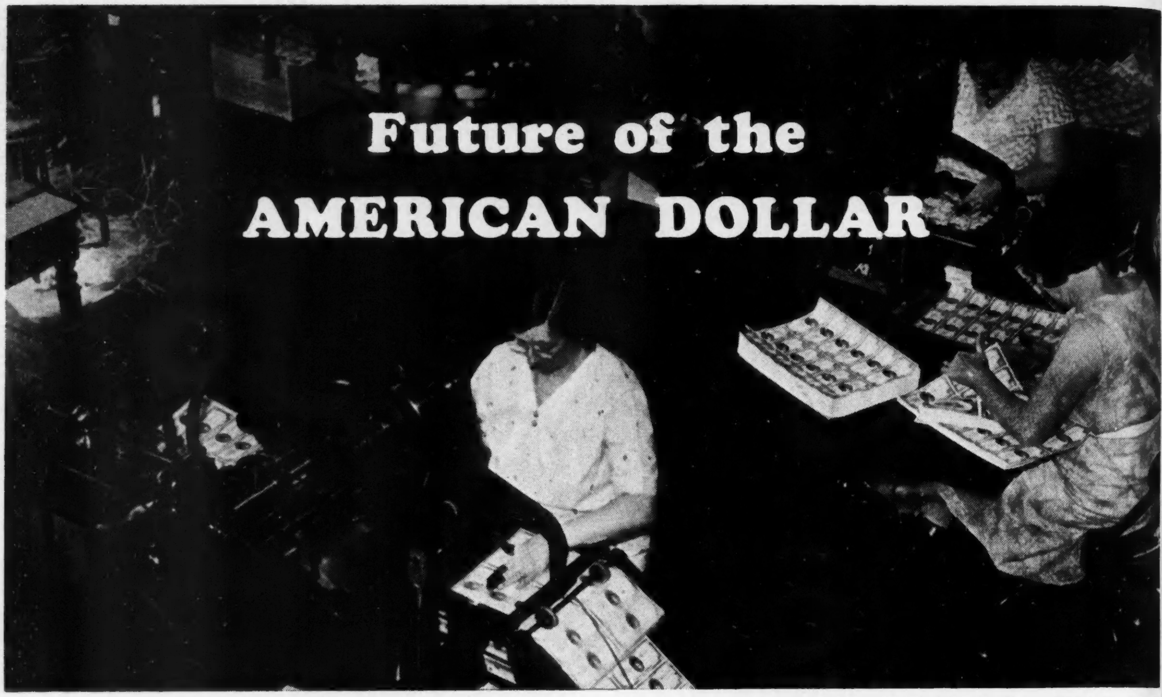
	1937	1939	1940	1941	1942	1943
High	69⅛	51¼	49¼	40½	28⅜	36⅞
Low	37½	32½	33	21⅞	21⅛	26½

The near-term outlook is obscured by continued restriction of production of cans for civilian use, which together with rising operating costs and taxes cut rather sharply into last year's net earnings despite increasing output of war materials and well-maintained container demand for military and lend-lease purposes. Over the longer term, however, prospects are viewed optimistically. Extensive plant modernization and expansion in recent years bolsters future earnings prospects and newer lines, notably fibre containers, are expected to strengthen the company's already sound trade position, presaging highly satisfactory sales after the war when restrictions are lifted. The war has worked important changes in can-making processes—some of them pioneered by Continental—which will benefit post-war operations through increased economy and various technical improvements.

The steady growth of the company's plant account was financed largely through stock offerings. To provide additional working capital, the management recently marketed $14 millions 3% debentures which, together with $21 million debentures sold in 1940 to retire outstanding preferred stock now constitute the only liability ahead of common. However, interest charges are rather insignificant compared with average earnings. Despite repayment of $6 million bank loans during the year, the company enjoys excellent liquidity with cash and equivalent exceeding current liabilities substantially.

Despite impaired war-time earning power, market action of the stock suggests a favorable opinion of the future outlook. After (*Continued on page* 550)

Future of the AMERICAN DOLLAR



Where money is made—a corner of the Bureau of Engraving and Printing in Washington, D. C.

Can Our Government Keep It Good?

By GEORGE B. COLLINGWOOD

IN EVERY war, the United States has been confronted by skeptics who have argued that the unwonted expenses of the conflict, as compared with the previous peace budgets, implied that the currency must be devalued as the burden of debt could be paid in no other way. Yet, after every major conflict, the United States has emerged with very much the same currency, and that after wars which were as costly in reference to our then small assets as the present war is when compared to our gigantic possessions and productive power.

The same has been true of Great Britain. She indulged in a century and a quarter of almost continuous wars, beginning in 1689 and terminating in 1815. Her money was better than ever at the end of battles which had spread all over the world and in the course of which she lost her pearl—America. France came out of the Napoleonic Wars in 1815 with better money than that with which she entered the conflict in 1792, and that after she had staked everything against the whole of Europe and was defeated.

Yet, there are instances to the contrary that are equally impressive. France came out of seventy-five years of bloody conflict in 1715, with her louis, then the first money of Europe, very much knocked out. There was wholesale devaluation of currencies in 1562, which terminated the first long series of religious wars. After 1918, a wave of devaluations shook the third money of the world, the franc; wiped out the fourth, the mark; and the sixth, the rouble; the seventh, the Kroner; bunged the lira, the eighth; and continued its effect in the thirties by all sorts of devaluations, restrictions, and internal monies. Hence, many investors are puzzled. The evidence shows that countries can fight for centuries and keep sound money; they can fight for only a few years and see their money wiped out. To which category does the American dollar belong?

As a rule, every conservative force in countries, after wars, tries hard to maintain the money with which they began the conflict. Prices have risen, turnover has gained manyfold, the circulation has risen, obligations are larger, taxes are higher, and yet everyone wants to hold on to the yardstick that preceded the conflict; everyone, that is, except embittered debtors. Even classes that have fared badly during a war, as our white-collar people do today, still want their savings and insurance and pensions made good and feel that with sound money, they can recover their purchasing power. Sometimes, a ruling group cynically devalues, as the Germans did in 1919, but that is so rare as not to be useful. Even revolutionary government puts up a futile fight for the money issued by the regime that it overthrew; witness the pathetic struggle of even the Bolsheviks to keep the tsarist rouble good.

The central political controversy after each war is between those who want the enormously expanded currency valued, in gold, at the old price, and those

who insist that "facts" compel a readjustment. After the Revolutionary War, in the United States, Shay's Rebellion of debtors showed that unless the Continental dollar retained some basic value, the creditor economy would be so shattered that British power might be once more welcome. Thus, the Constitution was formed and Hamilton, by the 1791 debt refunding, its complement, created the American dollar at 24.7 fine grains of gold. The repudiationists, Patrick Henry and Jefferson, were vociferous but sound finance won. The silver Spanish Duro became our dollar; the word itself coming from the *Joachimsthaler* or Bohemian silver unit of exchange, esteemed for excellent fabrication.

Inflationists Always Beaten

After the wasteful war of 1812, the inflationists were badly beaten by the re-establishment of the Bank of the United States, with the pre-war dollar as basic, but they continued their battle until Jackson, whose party had reaped the benefit of sound currency, demagogically abolished the national bank and instituted bank wildcatting about 1834. Jackson, panicky at the results of his policy, fixed the gold value of the dollar in 1836 at 23.2 fine grains. With the Sub-Treasury Act, a badly singed country returned to sound money, which was not challenged, despite the Mexican War, until 1862, when the exigencies of war led to a greenback issue.

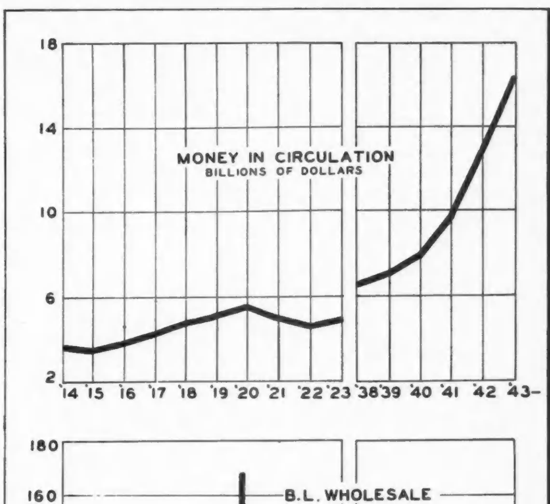
In the course of the Civil War, the United States Dollar, measured by gold, sank to 36 cents. A free gold market was permitted in New York, so that the dollar rose and fell like a common stock and became the principal object of speculation. At the end of the war, the dollar stood at about 65 cents. The average war debt had been contracted with the dollar at about 53 cents. That figure inflamed the repudiationists who insisted that the war debt be paid off in "the dollars in which it was received."

The sound money men urged that the dollar was an invariable currency, of so many grains of fine gold, and that its variation in purchasing power was a subject for commodity markets, but that it was the invariable reference in a world of fluctuation. In that way, men knew that they would save for their old age, pass on property to their children, and enter into contracts with confidence. In 1875, the Congress provided that the Civil War debt be paid off in specie, based on the former gold content of the dollar; this redemption was to take effect in 1879. Incidentally, bimetallism was ended in 1873, so that the dollar was actually better than the one which prevailed before Fort Sumter. The inflationists predicted that the attempt to pay billions in debt with money that had functioned when we had practically no debt, would "ruin the country." It led to the greatest long-term boom and industrial development that mankind has ever known.

Hence, after our every panic and war, money was made better than ever. In 1900, after panic and a short war, the Gold Standard Act consecrated the monometallic dollar of 1836. In 1913, after the lessons of the panic of 1907, the Federal Reserve Law related the gold dollar to the flow of foreign trade, as had been done by the Bank of England for centuries and the Bank of France since 1807. After the World War, the gold cover of the dollar sank to 44%, and for a time, experimenters like the Comptroller of the Currency put the fiscal policy of the post-war country into question, but the advent of Andrew W. Mellon, steeped in the Hamiltonian tradition and practice, paid off the war debt of 35 billions as rapidly as was legally permissible, with the gold dollar that had functioned for a country which had a debt of only a billion. The subsequent devaluation of our dollar, the first one of material significance since Washington's day, was brought about by the excesses of peacetime speculation and not by our war costs.

The reason for the passion of businessmen for sound money, even when it has to assume debt and tax burdens that are staggering, is that under it, business revives and the evils of war are most quickly done away with. Every country that has taken the primrose path of inflation has paid for it by years of misery. Every country that kept its money sound, though passing through a year or two of grim de-

MONEY IN CIRCULATION AND WHOLESALE PRICES



flation, made profitability possible once more in terms of real money. After Waterloo, the national debt of Britain was about 4.4 billion dollars. Compared to its wealth and production, our present debt of 140 billions is relatively much lighter. Britain insisted that she pay her creditors everywhere, however painful the process, in gold sovereigns. She came through as the first commercial nation on earth. Her supremacy was unquestioned. Every foreigner who watched the tricks of his government with currency, whether Spaniard or South American, Pole or Austrian, Italian or Prussian, sent his money to London, which thus had the liquid funds of mankind. With the profits made with these deposits, she soon was able to take care of her debt service with ease.

In France, after Waterloo, a prostrate country listened to the solemn advice of the new finance minister, Baron Louis. "Give me good politics, and leave it to me to give you good finances." Despite the drain of indemnities and occupation costs, the gold franc remained invariable and France entered on a thirty, nay, a fifty year boom, interrupted rarely and then only for short intervals. But Austria, victorious, which tinkered with currency, and Russia, victorious, which did the same, shook commerce and went into stagnation and later into decay.

Since the lessons of history are clear, the present question for the American depositor and bondholder remains, "Has the government the capacity and the willingness to keep my dollar good?"

The war has seen an enormous increase in monetary circulation. It has also seen a peak coverage of this circulation by gold, whether that is significant or not. It has also seen an increase in physical productivity that rivals the increase in circulation. It is true that the largest part of the increase of this production is not in civilian goods. But it is also true that the largest part of the circulation of money increase is not destined for the purchase of civilian goods. The immense turnover of war goods is reflected in the equally impressive increase of the monetary issue in order to finance bonds with which to pay for those war goods. The real issue for the consumer is whether the increase in monetary tokens available for the civilian consumer exceeds the supply of goods available for that larger mass of monetary tokens to command. Up to the end of 1941, civilian production still outdistanced the increase in consumer money. Up to the end of 1942, civilian production and accumulated inventories very nearly matched this increase. Hence, the command over commodities by the new mass of dollars has just begun to diverge from the pre-war ratio to any noticeable extent. Not until the spring of 1943, did the dilemma of guns or butter become a real problem.

Statistical Background on the Status of the Dollar.

	Monetary Gold Stock (In Millions of $)	Gross Federal Debt Per Capita	Net Income Per Capita
1914	1,890	$12.13	$ 319
1915	1,985	11.99	327
1916	2,444	12.16	384
1917	3,220	29.13	454
1918	3,162	118.20	550
1919	2,842	242.68	599
1920	2,852	228.06	642
1921	3,004	221.57	524
1922	3,515	209.01	520
1923	3,774	200.38	589
1924	4,152	187.73	592
1925	4,094	178.61	610
1926	4,165	168.56	631
1927	4,277	156.60	626
1928	3,919	146.87	633
1929	3,996	139.82	654
1930	4,173	131.50	588
1931	4,417	135.45	485
1932	3,952	156.10	374
1933	4,059	179.48	356
*1934	7,512	214.07	407
1935	9,059	225.55	443
1936	10,578	261.96	511
1937	12,162	282.77	536
1938	13,247	286.29	484
1939	16,078	309.03	522
1940	19,859	325.66	545
1941	22,737	368.07	693
1942	22,726	810.05 Est.	852
1943	22,426 May	1000.00 Est.(May)	875 Est.

* Gold revalued at $35 per oz., against $20.67.

Debt Service Need Not Spell Inflation

Nor has the impact of war on our debt structure been too serious. As was shown in the last issue of the *Magazine of Wall Street*, the service of our total debt, public and private, at the end of 1942, allowing for the steep reduction of interest rates since 1929, probably costs the citizen no more *per capita* than it did in that very prosperous year. It certainly is less of a burden, even on civilian consumption, than it was in the depression years. Whatever the money expression of the debt, if we treat it as the British did the Napoleonic debt, that is as a permanent service and not as a capital obligation, it is possible that this country has never been less in debt, in proportion to production, since 1914. There is nothing in the present circulation of debt monies, then, to interfere with the command of the present supply of dollars over civilian goods, once their production is resumed.

It must not be forgotten, also, that once the Treasury has no need to push money into the banks for the debt increase, and, pending the peace, once it seeks to enlist direct bond subscriptions and impose more heavy income taxation at the source, the resultant cancellation of purchasing power is in itself a very deflationary monetary act. Hence, up to the present writing, the United States has not yet coped with any situation in which the shortage of inventory and potential civilian production threatens to be too thin for the amount of privately issued dollars available for consumption, nor does the future of production spell a retrocession in civilian goods as against pre-war. Rather it indicates an augmented production capacity that might easily equal the then quantity of civilian dollars, and if released government inventories are taken into account, it is possible that even (*Please turn to page* 540)

One shift changing to another at a war production plant.

Cushing

The Coming Great Shifts In Our Civilian Economy

BY H. M. TREMAINE

DECISIVELY favorable changes in the course of the war now focus insistent attention—by business men, investors and the Government—upon the vast economic and industrial readjustments that must be made as we shift the world's greatest and most complex system of production and distribution from war's demands to the needs and desires of peace.

It is not a matter of going *back* to "normalcy." That can not be done. It is a matter of gradually establishing a *new* status of "normalcy" sufficiently productive and secure to serve the reasonably liberal economic and social aims of the American people. As need hardly be emphasized, the transition from war to peace will be a change scarcely less dynamic than was the more concentrated transition from peace to war after Pearl Harbor. Yet there will be a significant difference as regards the degree of urgency and the tempo of change. Going to war means almost revolutionary change. Reestablishing peace-time production after a great war means evolutionary, and therefore less shocking, change.

Looking ahead—regardless of the precise duration of hostilities—there are several certainties that we can tie to:

(1) War with Japan will go on for an indefinite time after Germany is defeated—perhaps for a few months, perhaps for a year or more.

(2) After the war, whether our policy is dynamic intervention in world affairs or a reversion to isolationist nationalism, nothing remotely approaching complete demobilization will be feasible for some years to come. Thus, as far ahead as one can see, demobilization will not only be gradual but partial. Depending upon world conditions, national security probably will require the service of at least 2,000,000 to 3,000,000 men in the naval, air and land forces more or less indefinitely. Nor can we dare junk all arms-making plants quickly. Especially in air equipment, subject to relatively rapid obsolescence, all will agree that we must not lag behind any other power in technical improvement.

(3) The coming of peace or partial peace will find a large accumulated need for consumers goods, business inventories and many types of non-war capital equipment to be met.

(4) Liquid savings available to American consumers as a whole and to American business as a whole will exceed $100,000,000,000—more than enough to finance a high level of economic activity for an unusually protracted period.

Points (1) and (2) are on the stabilizing side, mitigating the potential shock to production, employment and trade as transition from war to peace proceeds. Points (3) and (4) are expansionist potentials—the actual effectiveness of which will depend greatly upon the state of confidence: the confidence of employees in their jobs or job prospects, the confidence of employers in sales and profit prospects.

This is written just 20 months after the Japanese caught unprepared America asleep at the switch. As I note the well-nigh miraculous transformation since then—and look back on the mountainous problems that were encountered on the way—I am more inclined to minimize than exaggerate the formidability of the peace-adjustment problems that lie ahead. What we have done ought to—and, I think will—imbue Americans with that *supreme* confidence: that is, confidence in our energy, intelligence and resourcefulness as a people. When peace comes we will have had at least many weeks—and more likely months—of psychological preparation for it. I don't believe its advent will find any considerable number of us afraid of it or doubtful of the nation's ability to meet successfully its challenges, readjustment problems—and opportunities.

Employment Problem Manageable

The No. 1 post-war problem—politically and economically—will be to maintain the maximum possible level of employment. Large-scale unemployment can not be tolerated in a modern society. To the extent that private enterprise can not provide reasonably full employment for people who are able and willing to work, it is now generally agreed—certainly by a big majority of voting citizens—that the State must make up the balance either directly or indirectly. Any Administration which does not put this need first—regardless of the effect upon the Federal budget and debt—will not long retain power.

Whatever the long-term evolution of our economic system, it is beyond dispute that for at least some years after the war it can not be a free capitalism, as we once understood that term; and that it will not be a full State-ism. In short, it will of necessity be a "mixed economy." Government intervention and control will not be as extensive as during the war period; but, though gradually relaxing, must play a larger role than did pre-war New Deal "planning."

If the employment problem were suddenly dumped completely into the lap of private enterprise—which is inconceivable—a major economic tailspin would inevitably follow. Business men don't want that, the people don't want it and the Government couldn't permit it. It is a good bet it will not happen.

Yet this is by no means to say that new jobs must be provided for the some 30,000,000 persons who, at the peak of the war effort, will either be serving in the armed forces or engaged in war work. In the first place, probably from six to seven million will withdraw from the labor market—mainly women resuming dependency status, marital or otherwise; secondarily, younger people returning to the colleges and universities, and elderly workers resuming or initiating retirement.

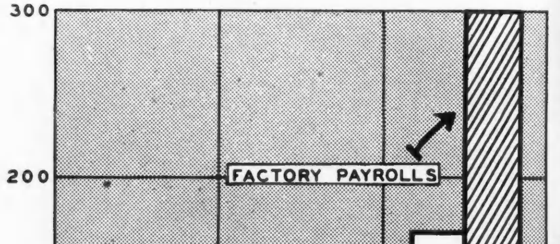
In the second place, unless and until there is established a Utopian world in which all nations can feel secure in disarmament, I think it a minimum estimate that not less than six million people will be engaged permanently, or semi-permanently, either as members of the armed forces or as direct producers for maintenance of the armed forces.

If this reasoning is correct, the problem will be to provide non-war jobs for some 17,000,000 to 18,000,000 persons—not 30,000,000. Even the lesser figures look very imposing—but they are not nearly as big as they seem. The end of World War I left some 13,000,000 service men and war workers to be absorbed. Despite this and despite the inventory-price depression of 1920-1921, quite severe though relatively short, the maximum decline in employment from the peak war year 1918 was less than 6,500,000 persons, the greater part of this gap had been filled by 1923, and new record highs were made in employment by 1925.

In relation to population, consuming markets, productive resources and consumer and business savings, the problem of providing 17,000,000 to 18,000,000 non-war jobs seems to the writer less, rather than more, formidable than was the matter of absorbing some 13,000,000 persons after the last war.

Moreover, desirable as it would be to have "full" employment, we have never had this ideal in peacetime and probably never will. In 1929 unemployment averaged about 500,000 persons. Today, ac-

Factory Employment and Payrolls in Three Periods



cording to Federal estimates, it is around 1,200,000 —despite labor needs and job opportunities far greater than in 1929. Why this discrepancy? The answer seems to be that since government—national and local—assumed the responsibility for relief and make-work on the modern scale, considerable numbers of persons list themselves as unemployed whereas in earlier times they found means of private support, without working. In 1937, unemployment averaged over 6,000,000 persons—yet the Reserve Board index of production was 113: that is, 13 per cent above the average of 1935-1939 as a "norm" of comparison.

Thus, if at some time in the post-war readjustment period, unemployment amounted to 6,000,000 persons or even moderately more, that would not necessarily spell depression nor, indeed, would it be inconsistent with at least a medium-high business prosperity, if we can judge by the experience of 1936-1937.

It is valid to exclude from the employment problem those persons who, by temperament or otherwise, are unsuited to competition in the work-a-day labor market. If there are over a million such persons under the job and wage conditions of today, probably there would be four times as many under more normal wage and job conditions—especially since for at least several years after the war the government-provided opportunities for easy make-work and/or relief will probably be "superior" to those under the pre-war New Deal.

On the whole, the ability of private enterprise to provide jobs, in relation to the population, should at least approximate that demonstrated after the last war. On the other hand, the problem for private enterprise will be somewhat reduced because, in ratio to population, an increased number of people, as compared with 1919-1922, will have employment in governmental services and/or governmental employment-creating projects.

Flexible and Staggered Transition

At no one time, of course, will there be anywhere near 17,000,000 ex-soldiers and ex-war-workers seeking jobs. Government plans aimed at gradual and orderly transition are already shaping up. The partial demobilization of fighting forces—and war workers—will be spread over a period of many months. Liberal dismissal pay and other financial benefits will be provided for service men and women. There will be severance pay and unemployment insurance for displaced war workers. The War Production Board is working out a program designed for the smoothest possible reconversion of industries and the boosting of civilian production as war output is tapered off. Already reconversion has begun in the railroad equipment industry in a switch from tanks to locomotives. Already output of farm equipment and certain types of minor consumer durable goods is being scheduled upwards.

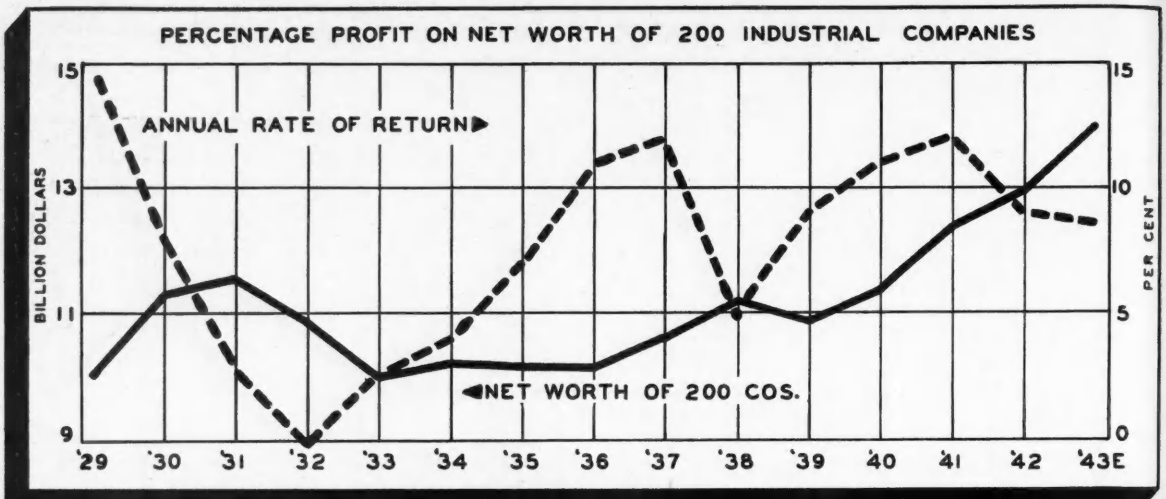
So far as *production* is concerned, our civilian economy has put bottom behind. Total civilian *consumption* will decline somewhat further as shrinkage in existing inventories—especially of "hard" goods —will for at least some months exceed any increase in new production. However, at no time did civilian

Plates for electric ranges being annealed in an oxygen free furnace at the Westinghouse Electric & Manufacturing Co.

consumption slump to anywhere near the Spartan level that had been earlier predicted, nor will it do so henceforth. Washington officials, and many private analysts, greatly underestimated the productive ingenuity and flexibility of our business manager in devising ways and means—including a host of substitute materials—of serving consumer demands. The same ingenuity and flexibility will serve the nation well in facilitating the transition to peace.

Naturally the present sellers' market in labor will end—and that will be no business disaster. The strong unions in the mass production industries will strive to maintain their war-won wage gains—which will have been paid for mainly at the expense of the Government, which is to say present and future income taxpayers—but to the extent that they hold to wages which are uneconomic on a straight profit-and-loss business basis, they will only succeed in reducing employment or impeding re-employment. Nevertheless, for the working populace as a whole, including salary workers, wage standards will be lower, the job-shift rate much reduced and working efficiency increased.

We can have a prosperity level of production and distribution even if aggregate wages and salaries were $15,000,000,000 to $20,000,000,000 a year lower than at present. It is not only the size of national income that determines business activity and employment but, even more specifically, the proportion of a high national income that is spent for goods and services or that is (*Continued on page* 547)



Second Quarter Reports In Light Of Today's Situation

BY WARD GATES

WITH the flood of second quarter corporate reports now past its peak, though the daily crop is still considerable, the available sample is now sufficiently comprehensive to give a fairly representative idea of the results for that period. Percentagewise, they have undergone a further contraction as against last year, in fact rather more than we anticipated. Based on returns of 281 companies, the earnings gain over last year has narrowed to about 15% while an improvement of only 4.3% is indicated over this year's first quarter. Allowing for the distortion created by last year's overstatement of tax liability, the actual gain in net would be still smaller. Considering the fact that peak operations were reached by most industries during the second quarter period, this showing is illustrative of the severe throttling effect of war-time taxes on rising operating income.

In other respects, however, the additional reports confirm the trends noted in our two previous articles on the subject. Again, there are wide variations in percentage gains while declines, where they occurred, were held to moderate proportions. Group trends, if anything, tended towards greater irregularity; in steels, for instance, rising and declining earnings were fairly evenly balanced. The over-all picture in steels, however, still accentuates the descending line. On the other hand, the oil group continues to show ascending earnings, some scoring excellent percentage gains, while the earlier declining tendency apparent in the mining sector is giving way to irregularity with the accent, however, still on the downside. Among companies showing declining earnings, those doing little or no war work predominate, although of course there are others as well. The recessive earnings trend of such war-active companies as Square D, Graham Paige and others most likely reflects change-overs in production schedules or contract cancellations while in the case of Artloom, Bigelow Sanford, American Stove and Florence Stove, the amount of war work obtained was insufficient to compensate for the loss of normal business.

In other sectors, sizable earnings gains are again reported. For the first half year, per share earnings of Allis Chalmers are up 68%, American Safety Razor 71%, Calumet & Hecla 83%, General Motors 51%, Allegheny-Ludlum 33%, Bristol-Myers 28% and Johns Manville 20%. First half-year earnings of White Motor, compared with last year, rose 209%, on a per share basis. On the other hand those of Square D declined 26%, Standard Oil of Ohio 23%, and National Steel 4%.

To what extent corporate results so far this year can be projected to cover the entire year is becoming increasingly problematical. The renegotiation factor alone would seem to compromise seriously any such procedure. Increasing shifts in war production, accompanied by numerous contract cancellations, is another element precluding definite conclusions. It may gain in weight, as time goes on, reflecting chang

ing conditions in our war industries springing from the new outlook created by recent world political and military developments.

The widening gap between earlier official estimates of this year's earnings gain and actual results should hold important implications. The Treasury's estimate of a 25% increase in corporate earnings has already been made an argument for increased taxes upon business. It should lose considerable force in the light of actual results. The Treasury in its projection of earnings apparently failed to allow, or allow sufficiently, for the various reserves which most corporations must set aside from earnings to provide for numerous contingencies. The result was a far more optimistic estimation of corporate returns than warranted in fact. With earnings during the second half likely to show an increasingly irregular trend, possibly even an actual decline, any argument for higher corporate taxes should hold little water in the face of realities. In business quarters, this is well recognized; however, official thinking is another matter.

As to the dividend outlook, the tendency towards conservatism is becoming ever more apparent. This is high-lighted by a clean-cut statement of policy of General Motors' management, on the heels of this company's brilliant earnings statement for the first half year. Says chairman Alfred P. Sloan, Jr., without mincing words . . . "dividends in all probability must continue on a reduced basis for the duration. Excess profit taxes and profit limitations on war contracts have the effect of establishing what is practically a ceiling on net income for dividends during the war period, thus offsetting the normal effect of expanding sales." This of course is not exactly news but it is perhaps the first time that management has squashed so forcefully stockholders' hopes for higher disbursements. We may be sure that the point made by Mr. Sloan will find a wide echo in corporate quarters, rendering prospects for increased dividends rather remote while the war lasts. Apart from the reasons cited by Mr. Sloan, caution alone would seem to dictate such a course at a time when reconversion problems are coming increasingly to the fore.

The General Motors report covering the June quarter illustrated the important progress it made in war production. Deliveries of war materials in the period ran at an annual rate of $3.3 billions, with production reaching a new high of $832 millions, an increase of 8.7% over the first quarter. Compared with 1942, sales doubled and so did operating income, but taxes likewise rose about 100% while costs mounted 125%, and final net was only 50% over last year's, amounting to $36.31 millions against $24.61 millions for the second quarter in 1942. The increase in costs reflected primarily rising wages, with the second quarter payroll amounting to $308 millions against $285 millions in the first quarter and $192 millions for the June quarter last year. Voluntary price reductions of $80 millions also contributed.

Radio Corporation of America in its second quarter report divulged a 55% increase in sales but net profit was actually a trifle (*Continued on page 549*)

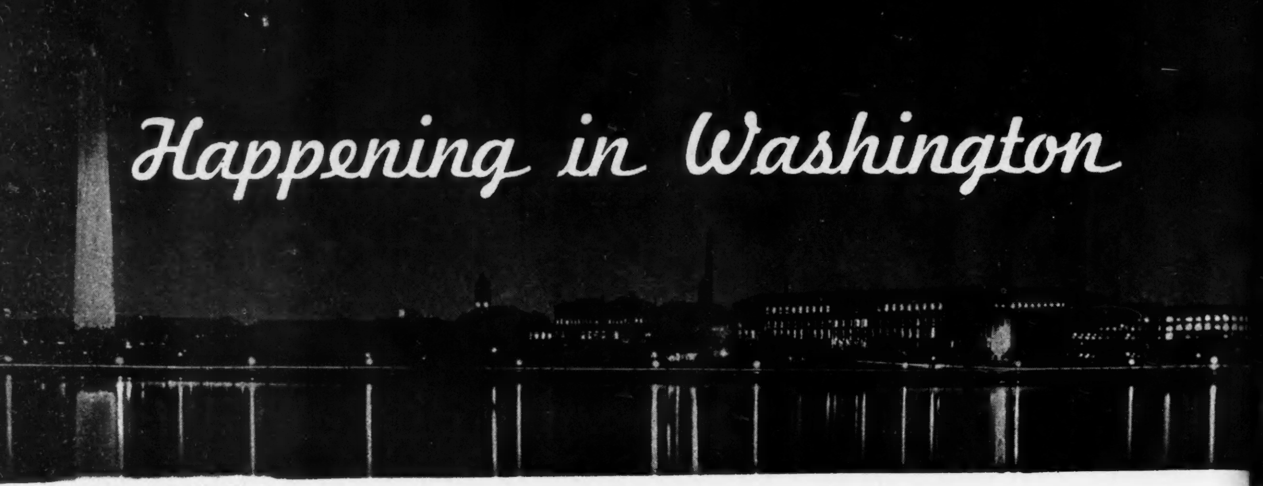
Companies Showing Decline in Earnings

	Per Share Second Quarter 1943	1942
Artloom	$0.18	$0.27
Fed. Mining & Smelting	.94	1.48
Maracaibo Oil Exploration	.02	.07
N. J. Zinc	.87	1.09
Sharp & Dohme	.29	.30
Gaylord Container	.36	.37
Flintkote	.25	.46
Superior Oil	.03	.05
Hazel-Atlas Glass	1.67	1.87
General Refractories	.32	.37
Pittsburgh Coke & Iron	.27	.29
Marshall Field	.27	.46
Nat. Steel Corp.	1.15	1.25
First Half Year		
Briggs & Stratton	$1.75	$1.78
Pacific Mills	2.21	2.23
Anaconda Wire & Cable	1.11	2.05
Pond Creek Pocahontas	1.40	1.45
Pure Oil	.92	1.21
Am. Stove Co.	.50	.75
Bigelow Sanford	.49	2.62
Florence Stove	1.17	1.28
Graham Paige	.15	.21
Square D	2.65	3.57

Companies Showing Increased Earnings

	Per Share Second Quarter 1943	1942
Am. Safety Razor	$0.54	$0.30
Am. Viscose	.63	.62
Bristol Myers	.82	.47
Hayes Mfg.	.26	.05
Sterling Drug	.87	.70
Pittsburgh Forgings	.93	.82
South-Eastern Greyhound	2.19	1.13
Thermoid Co.	.46	.31
Atlas Tack	.51	.37
Coca-Cola	1.82	1.71
Fairbanks Co.	.29	.25
Goebel Brewing	.10	.08
Am. Bank Note	.43	.20
Briggs Mfg.	.63	.52
Gen. Am. Transportation	1.02	.60
Internat. Paper	.64	.55
Mack Trucks	.93	.84
United Drug	.52	.35
Continental Oil	.75	.51
Electrolux	.18	.05
Allegheny Ludlum Steel	.88	.79
American Bosch	.38	.24
N. Y. Honduras-Rosario Ming.	.65	.55
Seaboard Oil	.34	.18
United Aircraft	1.41	1.18
Eastern Rolling Mills	.23	.17
General Motors	.78	.51
Intertype	.37	.25
Skelly Oil	1.36	.92
Allis Chalmers	1.16	.50
Noblitt-Sparks	1.35	.92
Panhandle Prod. & Refg.	.14	.01
Quaker State Oil	.32	.27
Ruberoid Co.	.26	.20
Standard Oil of Cal.	.67	.60
Superior Steel	1.80	1.08
First Half Year		
Borg-Warner	$1.99	$1.70
Lion Oil Refg.	1.51	1.29
Thompson Products	4.53	3.76
Abbott Laboratories	1.58	1.34
Peoples Drug	.90	.77
Island Creek Coal	1.39	1.06
Noranda Mines	2.53	2.49
Ohio Oil	.97	.79
Paramount Pictures	1.97	1.88
Phelps Dodge	1.33	1.09
St. Joseph Lead	1.38	1.09
Coty	.23	.21
Sinclair Oil	.76	.65
Evans Products	.99	.55

Happening in Washington



Charles Phelps Cushing Photo

BY E. K. T.

OBSEQUIES for the remains of Republican party isolationism will be conducted Sept. 6 and 7 at Mackinac Island, Mich., when the Republican Post-war Advisory Council meets to put the party on record as international-minded, inferentially—if grudgingly— approving the position Wendell Willkie espoused two years ago. The Committee will go all the way for united world action against peace and poverty "by any necessary means."

BIG BUSINESS is handling only slightly more than one-half the war contracts outstanding this year. Actually 48.8 cents out of each dollar is going to industries whose plant capacities place them in the "little business" group. War agencies concentrated on huge contractors in the early days of production. The capacity and the know-how couldn't be found elsewhere then, but can be now.

Washington Sees:

Before democratic Senator Carter Glass of Virginia can expect the Republican Party to call off the name-calling which has been particularly vociferous in recent weeks, he might reasonably be asked to do a job of housecleaning within his own party.

Because Glass not only has built up a reputation for independence on domestic issues but also reserved the right to continue to disagree as vigorously as he might please, his words of counsel were potent; politics should stop at the ocean borders; criticism of the President should be weighed in the light of its analysis abroad, where condemnation of a government leader's policy is condemnation of the government itself.

Washington thinks it would have been better if the solon had taken in more territory; if, for instance, he had decried the challenge by Vice President Wallace to corporations to come out and fight with the Administration, not after the war but—"The sooner the better!" Or, if he had taken to task Secretary Ickes for his recent blast against dollar-a-year men in Government service in which the garrulous cabinet member gratuitously insulted scores of his fellow officials.

PURGE of what was Board of Economic Warfare is in prospect with Leo Crowley, successor in title to Henry Wallace and Jesse Jones, swinging the axe in wide arcs. John Bovingdon, the contorting economist, was the first to go but his was a "symptomatic" firing and not an isolated case. Crowley has kept his Alien Property Custodian's office and his Federal Deposit Insurance Corporation above suspicion and will tolerate no spotted apples in his barrel.

DEMOBILIZATION director will be the Nation's No. 1 important job after the war. Selective Service Act sets the pattern of compulsory re-hiring and there must be supervision; there's job training, too, and rehabilitation, ad interim maintenance—a host of other functions. They extend down into the depths of national economics and taxation, sociology and politics. Paul V. McNutt has the job cinched if the New Deal survives 1944.

CARRIERS, by the magic of mathematical projection, are promised consumer transportation revenues of $4,159,000,000 in the calendar year 1947—77 per cent above the 1940 figure. Domestic air lines should receive $252,000,000, an increase of 377 per cent over 1940, despite an expected 20 per cent reduction in fares. These are Department of Commerce data, projected on a "past performance" basis.

INFLATION threat appears substantially less alarming, at least for the time being. There is belated evidence that the withholding tax is now beginning to reduce retail trade gains, especially in the Eastern states; and merchants have recently veered toward caution in buying policy. The coming war-financing program will be deflationary as far as it goes, since the commercial banks will not participate.

United Nations' promises to partners who have been "bearing the heat of the day" on two embattled Continents are on the way to fulfillment.

The pledge to draw some of Hitler's fire from the Russian front, made months ago to Stalin, is being redeemed in the drive through Sicily into Italy, lopping off one Axis partner and imperilling the southern gateway to Germany.

Equally significant was the President's order to cut six billions from the War Department budget, add four billions to the Navy Department purse for next year. Strategy is being changed as the tides of war change; F D R is prepared to prove that seas are highways, not barriers.

Amphibian operations have been successful in European landings where they had their first large-scale application after tryout at Guadalcanal. Air and sea supremacy have been gained over and in the Atlantic, but the water highway to Tokio is much longer.

An added four billion dollars for extra naval construction does not mean warships for the Battle of Europe, but warships to deliver the knockout blow to Nippon, a budget shaped to the peculiar needs of warfare on a vast ocean. The pledge to China is being redeemed.

Strict delimiting of state and federal governmental bounds is not always the watchword of state officials. When the states are on the receiving end they find they can do business with Washington.

Witness the Motor Vehicle Administrators recent Georgia meeting. States have successfully built and maintained roads (with federal financial aid) and no new post war road agencies are needed, resolved the state officials. Give them the job, helped by federal money, and it will be done they assured.

A separate air force, on par with and independent of The War and Navy Departments, is in the offing. The theoretical wisdom of unity has been apparent for years, but the practical advantages of striking air power under a single command only now are making themselves felt.

Army aviation is by far the more extensive in point of equipment, personnel, and theatres of operations, but navy flight arms are growing strong. There is no scientific formula for determining a proper ratio between the two to achieve maximum hitting value.

Chiefs of aviation in the War and Navy Departments have not been able to present their cases fully to Congress, but have had to submerge their agencies in the interest of largely un-earmarked appropriations. That's one of the major reasons the United States entered the war a "poor cousin" in the air.

With a unified air force under separate authority, aviation could stand on its own feet before Congressional appropriators. General Henry H. Arnold, Chief of the Army Air Corps, will head the command if it eventuates.

Political or otherwise, the most recent Presidential radio address was not one calculated to do harm to a candidate for public office, consequently furnishes a peg on which party debate will be hung.

Amusing aftermath of G O P Chairman Spangler's smashing reply was the attempt by Rep. Dewey Short to bask in the reflected glory. Coffee rationing has been lifted, gasoline restrictions will be eased. Rep. Short found the answer: "Politics " "Fourth Term!"

As if to prove Lou Maxon was in error when he quit O P A with a blast against young lawyers "so bound up in legalistic red tape that Houdini himself couldn't untangle it," the price control agency has issued this masterpiece on fruit cake ceilings:

"All commodities listed in Appendix A are those known to the trade as such excepting therefrom such thereof, if any, while subject to another regulation."

There's ominous language in every assurance from high authority that wearing apparel will not be rationed: "ifs" that can't be lightly tossed aside. And the W P B advisory committee of clothing manufacturers suggests end-products should be rated on comparative essentiality.

Military needs, naturally, have first call. In the civilian field, work clothing for operatives in war industries, hospitals, and other public health and protection agencies, and material for children's apparel, are not easily arranged in the order of essentiality.

The Converters' Industry Advisory Committee thinks the job can be done, recognizes the problems involved, hopes it will be permitted to tackle the task "on a voluntary basis to begin with."

The supply-demand situation is thrown definitely askew by tacit understandings that the United States will clothe and feed the post-war world. There's no way of estimating what that means in terms of wearing apparel, whether it will cut deeply into the domestic supply, how soon stockpiling of clothes must begin.

Some hint may be had, however, from the fact that the Lehman Committee for world relief has gone into the market for five million pairs of shoes to be distributed in liberated countries. That figure doesn't cover the indicated need, but is considered to represent the maximum number of pairs that can be taken off the United States markets.

If the wearing apparel is to be drained down to a point beyond which it is unsafe to go, protection of that narrow line of safety must be masterminded by someone. Rationing is the safety valve in the shoe field.

Legislation abandoning the Administration's stalemated fight for direct subsidies but reaching the same goal by government purchase and resale - at a loss - of whole food crops, is being readied for Congress.

Funds of the Commodity Credit Corporation would be used to buy for resale. Congress would be expected to erase the planned deficit later on.

Approval of the lawmakers probably wouldn't be asked were it not for the fact that several times the 350 million dollars now in C C C would be needed. But, if Congress balks R F C will pop up with a brand new subsidiary.

Mid-Year 1943

Re-Appraisals of Earnings and Dividend Forecasts—

PART III

Outlook and Ratings for Individual, Chain and Department Store Issues, Mail Order Companies, and Metals

PERIODIC re-appraisal of investment and speculative holdings is an essential safeguard against changing conditions which threaten or potentially threaten either capital values or income return or both. The military, political, economic and financial changes affecting security values today are more numerous and rapid than ever before. Especially in the case of common stocks, watchfulness is imperative at all times.

To serve this need THE MAGAZINE OF WALL STREET, as for many years past, presents its special Re-Appraisals of Earnings and the accompanying Dividend Forecasts at six-month intervals—besides, of course, its regular bi-weekly coverage of all significant economic and industrial developments important to investors.

Our thousands of readers in the aggregate hold stocks of many hundreds of corporations. Thus, lengthy individual re-appraisals in this service feature would permit coverage of too few to be adequately useful. Hence our effort is to present the most pertinent information and ratings on the maximum possible number of issues as concisely as possible for the convenience of our subscribers.

It is important to bear in mind that current earning power of various war-active companies is abnormally good and thus not indicative of future potentialities. Similarly, depressed "war casualty" earnings are also abnormal. For these reasons, as a handy reference guide, our tabulations show for comparison the average pre-war earnings and dividends of 1936-1939. Book values and—where feasible—net quick assets per share are also shown and are of considerable interest in an inflation era. Under "Investment Rating" the letter denotes our judgment of investment quality and prospects, taking into account trade and financial position, management, growth, potentials, tax position and other factors; while the numeral indicates current earnings trend. Thus: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. Numerals: 1—Earnings Trend Upward; 2—Steady; 3—Down.

Selected issues favored for capital gain are denoted by the letter x in the tabulations; for safe income, the letter w. For guidance on timing of purchases for appreciation, watch the continuing advice given in our regular market analysis article in the forefront of each issue.

Outlook for Merchandising Stocks In War and Peace

The Montgomery Ward Store in St. Paul, Minnesota

Earnings expected to be maintained in second half-year at close to present levels

BY PHILLIP DOBBS

FOR six months, the pessimists have had it all their way in predicting increasing difficulties for retailing, and for six months the market (until its recent general retreat) blithely refused to consider the arguments advanced by the analysts. According to the consensus of market experts, there were several factors which would converge towards lower earnings. One was the reduction of net sales due to reduced inventories. The second was consumer hesitation due to increased personal taxation, whether by way of withholding, or by higher rates payable on the due dates next year. The third was the generally increased cost of goods which acts as a buyer's limitation. The fourth was the higher reproduction costs of inventory, even when such inventory could be bought. The fifth were higher corporate taxes generally. The sixth was the cost of untrained personnel. The seventh was the loss of the profitable, and in money terms, enormous factor, of consumer's durable goods. The eighth was higher wages, higher delivery costs and packaging expense, when incurred. The ninth was the generally increased overhead to cope with multitudes of government reports and questionnaires. Yet none of these apparently decisive factors was considered significant by buyers of good common stocks. Were they right and the experts wrong? What is the immediate 1943 prospect of retail earnings? What relation do they bear to 1944?

During 1942, sales of department stores went up 12%. In view of the increased costs of goods, it is possible that this does not represent a large increase in total physical volume. But as consumer's durable goods sales fall off greatly, it does represent an increase in the physical volume of soft goods and specialties, and, above all, of cheaper luxury items such as costume jewelry. Ladies' apparel is the next greatest gainer. The specialty shops in that trade have shown an increase in physical turnover almost as impressive as gains in cash receipts. In other words, in 1942, on non-durable goods, despite the drains which war production has made on civilian producer capacity, accumulated inventories and a fair volume of continuing civilian production combined, permitted a new high. The buying potential of the country has not been lowered to equal previously smaller income, by way of taxation and individual bond sales. As a result of these large gross sales, department store net earnings before taxes were the highest since 1919. Taxation, of course, made the 1942 showing not quite comparable to 1941.

If retailing costs were greater, why was net before taxes larger than ever before? Partly because of the sellers' market that prevailed after Pearl Harbor. Sales, that is, sacrifice sales, became less necessary. Odds and ends could be sold at good prices, without clearance markdowns. Prices remained fairly stable, apparently, but there are few consumers who will not testify to a changed quality in similar items sold. Also, delivery services were reduced, as were a large number of consumer services, unprofitable, but formerly necessary for doing buesiness. Advertising was a lesser relative expense. Charge accounts were reduced. Installment losses were fewer. Financing cost was therefore less. That serious loss, returns of merchandise, was cut down to the smallest amount in a decade.

Certain longterm tendencies were accentuated.

Owing to the redistribution of the productive population, sales in smaller cities advanced spectacularly, whereas in the old metropolitan centers, the advance was moderate. Their expense ratio is higher than that of stores in smaller cities. The effect of war costs on their net earnings was unfavorable. Naturally, chain department and specialty stores, whose holdings are mostly in small cities and in new defense areas, were benefited disproportionately whereas companies like Macy's showed poor advances. But there is no evidence to show that such dislocations are permanent: if they were, even a favorable retailing situation in older cities would have to be resurveyed and the investor learn to favor companies operating in these newer industrial areas, or in smaller communities. This is one of the hypothetical questions concerning longterm investment.

How Much Could Sales Decline?

The story of department stores last year is not very dissimilar to variety stores, except that their inventory situation was somewhat tighter and yet operating ratios were more favorable, nor to specialty chains, such as Lerner's, who benefited more than department stores, despite the average higher ratio of costs. But all types of stores are equally concerned with the possibilities of immediate shrinkage in gross receipts. The Office of Civilian Requirements has bluntly estimated that, because of shortages, civilian business will fall off as much as a fifth from the latter part of 1942, in the last half of this year. This really disastrous estimate has been countered by merchants with a possible 1 to 3% decrease as against the latter half of last year. When one considers that a 15% gain over the first half of 1942 occurred in the first half of 1943, then the rise of gross in 1943 should be 12% above 1942, the same as that year's advance over 1941. Nevertheless, the merchants agree that in the spring of 1944, the Office of Civilian Requirements estimate may not be so wide of the mark. They expect to take care of most of their Christmas traffic but they feel that that drain will at last make inventories too small to permit of volume of sales holding up, whatever the then purchasing power of the clients. Hence, the apparent difference between the government and private estimates is in respect of timing, based on the calculation of inventory available now to meet buying pressure this fall and winter. In either case, the purchaser of retailing stocks must prepare himself for reduced income by next Spring, unless peace supervenes. In that case, the need to maintain as much employment as possible would probably lead to a liberal policy with respect to the production of civilian goods; certainly for the highly profitable consumer's durable goods section.

National income has risen by about 24% this year. Allowing for a slight decline in rate of gain over last year, total national income should still be 20% greater in the latter part of 1943 than in the last half of 1942. That 20% increased buying capacity (reduced currently by withholding) will seek to satisfy itself by acquiring such inventories as there are. Since the retailers estimate only a slight drop in gross sales, it is clear that they believe that the depletion of inventory must be extremely important this year, since it would fall about 23% short of satisfying demand, after taking new production into account. If, however, a still further decline in durable goods sales is posted, then the decline in nondurable inventories may be somewhat less than assumed, since a large part of the inventory decline would occur in the wholly irreplaceable section of retailing, leaving more leeway for the replaceable. Hence, we may reject an overall estimate of a decline of only 1 to 3% (after subtracting the last drafts on durable goods) and assume that a 5% decline in gross is more likely, thus bringing the first retreat of gross sales since the war economy began in the fall of 1939. By the spring of 1944, a decline of over 10% is certain, barring peace, and 20% may not be fantastic. How will such prospects diminish net income?

For the latter part of 1943, the effect of lower sales on net income will be inconsiderable, though preventing any gains. Summer trade still remains more satisfactory than ever, especially in ladies' apparel. The specialty shops are making the best money in years, although their executives think this is at the cost of Christmas trade. Hence, the summer "fat" can be applied to take care of the decline that may begin in September. With bare shelves, advertising can be further cut. Help, at last, can be diverted to defense industry, as the War Labor Board devoutly wishes. Taxation, which cancelled all gains in net for 1942, could be considerably reduced. Services, in a complete sellers' market, could be abridged still further. The effect on the 26 non-food purveying retailers listed in our table accom-

The cashier in a self-service grocery store. She not only takes your money, but your ration points as well.

panying this article, is estimated by us to reduce net from 1942 to 1943 merely from $2.72 to $2.69, or only by 1%.

Potential inventory shortages are the main deterrent to increasing retailing profits. But in the food trade, rationing, which seeks to reduce demand, is the central consideration. Here the government attempts to conserve inventory by discouraging demand for the specific commodities involved. The grocery chains have met this challenge by directing demand to the unrationed sector of food and to those items which are not covered by ceiling prices. Whenever there is rationing, but not total rationing, this type of substitution becomes the leverage for profits.

But increasing difficulties in unrationed items such as poultry and eggs indicate that this substitution is not a sufficient basis, and, in the case of many other unrationed items, such as bread and fluid milk, the margin of profit is too close for comfort. The principal hope must reside in the easing of restrictions, as was recently done with coffee.

Until now, of course, the rising income of the people has resulted in a higher standard of living, and in areas like the newly industrialized South, created a new consumer. This new consumer can be induced to take unrationed items, such as high-profit packaged cereals, since this type of consumption, on a purely caloric basis, represents a great advance in his formerly meagre diet. But in the metropolitan cities, whose war benefits are the least likely to improve the grocery receipts, the new consumer is a comparatively small consideration.

Physical volume of food sold has actually diminished over the largest part of the country. When it is remembered that over ten million buyers are not dependent on retail purchases for food and that the practice of eating out has increased at a rate not before paralleled, these two factors alone are enough to account for the decline. Naturally, higher prices partially offset this tendency, but, if food production is to be less than that anticipated (and it seems that food outturn will not be more than 4% above 1942), then civilian consumption may be as much as 10% less than in 1942, allowing for a fourth of the food to be destined to the armed services and lend-lease. Packaged cereals are about the only product with a good profit spread that promises to be more largely consumed *per capita* in the fall of 1943 than in 1942.

Apart from operating economies and a slight rise in foods whose prices are free, there seems to be no possibility for an increase in grocery chain store margins. Our estimate of five grocery chains average net per share predicts a reduction from $2.00 for 1942 to $1.85 for 1943. Nevertheless, this does not tell the story for the future. Safeway Stores, to take one instance, is still in a growth phase. Its acquisitions are made at economic prices, and it will to some extent advance because of the mere growth of population. But its immediate prospect is for slightly reduced net income. Certainly, the few remaining luxury items handled by grocery chains, according to trade reports, have shown a marked decline after the withholding tax. Grocery stockholders must also remember that their gross sales, during the war, have been far higher than in peace, so that no undue premium should be paid for "peace prospects." Compared to 1940, their gross receipts are still up by a third, and the average rate of profit must be computed as a median between war difficulties and smaller peace business. Grocery chain stocks have no "romance" margin.

The "Five and Ten" type of variety store always enjoys the greatest consumer popularity by reason of its varied, colorful, useful and cheap commodities. It almost immediately reflects payroll increases since its customers are drawn primarily from the wage-earner groups. Hence, (*Please turn to page 546*)

Position of Leading Merchandise Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net per Sh.	1942 Net Per Sh.	1943 Est. Net per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividends to July 1	Investment Rating	COMMENT
x Allied Stores	15.14	.....	0.79	2.50	2.50	0.05	0.30	B1	Holding company in expansion phase and benefitting from exphasis on womens' apparel. Replacement of stock and higher costs indicate no net gains but long term promise good.
American Stores	24.32	12.76	0.71	1.54	1.35	1.00	0.75	C+2	Well integrated eastern grocery chain. Volume has been fair but dividend coverage thin. Earnings affected by higher costs and taxes. Finances strong and dividend could be maintained.
Arnold Constable	14.93	9.25	0.85	1.00	0.85	0.75	0.25	B3	Specialty shops with good management but may be affected by pinch in income of middle class clientels. Dividend seems secure.
x Best & Co.	38.88	19.06	3.83	2.72	2.80	2.65	0.80	B2	Company in growth phase and increasing volume new stores compensates for increased costs and inventory problems. Long term dividend outlook upward.
Davega Stores	12.01	10.30	0.52	1.17Mar.	0.95	0.50	0.30	C2	Sporting goods, musical devices and miscellanies all sharply affected by war. Conservative management reducing operations where possible.
x Federated Dept. Stores	32.36	3.30	2.36	2.79	2.85	1.50	0.90	B2	Company has had extensive inventory and Bloomingdale's has shown growth possibilities. High grade and loyal clientele assure steady earnings. Dividend secure.
First Nat. Stores	31.72	16.37	3.60	2.91	2.70	2.75	1.87½	B2	New England grocery chain with static peacetime earnings with war trend net downwards. Processing activities efficient. Dividends just about covered.
Gimbel Bros.	28.91	.....	0.55	2.26	2.40	....	0.15	C2	Diversification of stores from factory to ultra-chic appeal indicate continuance earning power despite possible inventory limitations. Long term trend improved.

Position of Leading Merchandise Stocks—*Continued*

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net per Sh.	1942 Net Per Sh.	1943 Est. Net per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividends to July 1	Investment Rating	COMMENT
Grant, W. T.	28.65	10.54	2.86	2.87	2.70	1.26	1.05	B2	Conservative variety chain in northeastern states now attempting cope with help problem by self service installations. Long term dividend outlook upwards.
x Green, H. L.	19.93	4.71	3.03	3.62	3.70	2.12	1.50	B2	Canadian chain prosperity aids earnings. Debt repayment and strong reserve policy gives company investment quality. Net should be sustained despite war difficulties.
Interstate Dept. Stores	18.41	8.28	1.10	3.27	3.40	0.81	0.50	C+1	Workers appeal stores direct beneficiary of payroll increase. So far inventories have been ample for augmented demand. Peace earnings may be less impressive.
Jewel Tea	16.37	6.65	5.58	2.03	1.75	2.79	0.65	B3	Route company hurt by gas and tire rationing but aided by recent coffee rationing termination. Company will recover sharply in peacetime. Dividend can be maintained without injuring financial position.
Kresge, S. S.	22.23	7.15	1.87	1.45	1.50	1.29	0.50	A3	Earnings dependent on continued supply best selling lines. Net apparently can be sustained through adroit replacement items. Finances excellent.
Kress, S. H.	28.31	6.58	1.98	2.13	2.00	1.20	0.80	B2	Inventory foresight of management has put company in good competitive position. Slight recession in net in last six months indicated but dividend assured.
x Lerner Stores	24.20	2.27	4.32	3.51	3.40	2.00	1.00	B1	Popular priced ladies' apparel chain which has benefited from this gaining volume. May be affected by more cautious buying due to witholding tax.
Macy, R. H.	36.32*	10.29*	2.08	1.82†	2.10	2.19	1.50	A2	Company in position to have increasing volume reflect in increasing profits proportionately. Volume decline may occur with reduced net wages due to taxes.
Marshall Field	22.20	.....	0.83	1.68	1.55	0.07	0.40	B2	Retail and textile sections have been increasing in volume, but margins in both are relatively lower. However, fairly steady earnings are long term indications.
May Dept. Stores	41.51	19.92	3.70	3.66	3.60	3.31	1.50	B2	Company was beneficiary of rush of buying by new income groups, but this should moderate. Inventories still large. Dividend can be maintained.
McCrory Stores	13.15	0.25	1.87	1.90	1.80	0.56	0.50	C+2	Volume steady but may decline except in defence areas. If inventories can be replaced at comparable cost, possible earnings decline not significant.
McClellan Stores	7.68	2.80	1.11	1.43	1.30	0.69	0.40	C+1	Benefits from farm purchasing power and prudently acquired inventories sustained first half year but volume promise latter half slightly recessive.
w Melville Shoe	7.71	2.91	4.75	2.29	1.95	4.25	1.00	C+3	Drafting of customers and rationing have temporarily reduced earning power but well managed company is excellent peacetime business and may seek maintain continuous dividends.
x Montgomery Ward	45.62	34.25	3.86	3.65	3.50	2.38	1.00	A3	Favored by certain peace revival especially in durable goods but shortages in most important lines must limit nearby earnings. Reserve policy elastic and affects statement of net.
Murphy, C. G.	36.82	7.09	5.75	5.33	4.75	3.34	1.50	C+3	Company's stores in active defence industry areas. However, management bases policy on steady and predictable sales thus assuring even earnings in peace.
National Tea	17.72	4.26	D1.13	0.54	0.50	0.23	.....	C2	Midwest food chain with medicore long term earnings. New and competent policy made gains but rationing, ceiling prices and rising costs hamper recovery.
w Newberry, J. J.	49.53	1.24	5.20	6.70	6.50	2.33	1.20	B1	Variety chain shows conspicuous volume gains. Could raise dividend rate but will await peace conversion before diminishing surplus cash reserves.
w Penney, J. C.	33.47	25.54	6.44	6.58	6.50	5.50	1.50	B3	Department store chain mostly in smaller cities which profits by localization of buying during war. Advance in clientele income has broadened merchandise line.
Reliable Stores	21.93	19.64	1.52	0.92	1.00	0.69	0.25	C+3	Lean furniture sales have been partly compensated by jewelry advance. Low priced house furnishings should show large sales expansion in peace.
Safeway Stores	42.49	6.06	4.32	4.06	3.90	2.00	1.50	B2	Second largest grocery chain in growth phase. Rationing, expensive help, taxes and ceilings, despite offsets, should slightly reduce last half year net.
x Sears Roebuck	54.27	33.75	5.49	5.87	5.30	4.75	1.50	A3	Leading distributor durable goods but increasing variety in its department stores partly compensate shrinkage main line. Substitute lines also tightening. Postwar increase assured.
Shattuck, F. G.	17.16	6.60	0.60	0.80	0.90	0.73	0.20	C+2	Restaurant chain profiting by full employment and increasing tendency towards eating out. Candy has compensated for sugar. Outlook better.
Spalding, A. G.	8.02	3.40	D2.41	0.48	0.60	.....	.....	C2	Leading producer sporting goods distinctly a war casualty despite army orders and new war production. In position for good postwar earnings.
Spiegel, Inc.	9.66	8.00	1.54	D1.43	D0.25	0.64	.....	C+2	Restriction of installment sales has not been countered, but management is coping with switch to cash and notably reducing loss.
w Woolworth, F. W.	21.21	4.79	3.19	3.43	2.25	2.40	0.80	B2	Earning power slumped because of diminution of varied lines but has stabilized at lower levels. Dependent on post-war recovery for appeal.

(D)—None applicable. *—Fiscal year ending Aug. 1, 1942. †—52 weeks ending Jan. 30, 1943.
w—Attractive for yield. x—In line for market appreciation.

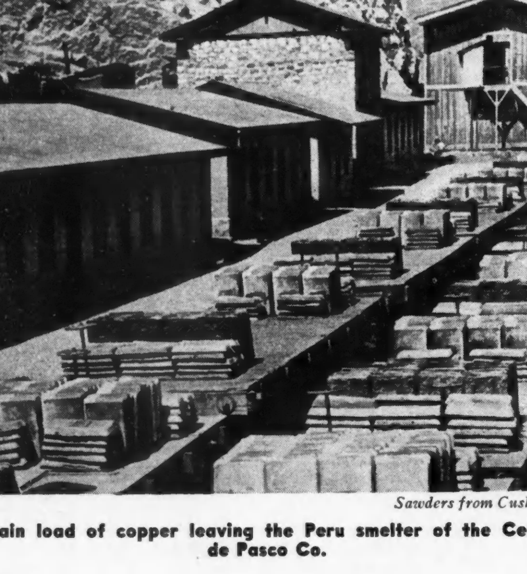
Changing Status of the Metals

MARKET ACTION REFLECTS UNCLEAR POST-WAR OUTLOOK

BY STANLEY DEVLIN

DESPITE OCCASIONAL flurries of interest, notably in coppers, metal shares as a group have continued to labor under the handicap of a dubious post-war outlook and their market action as a whole is disappointing. Classed primarily as war stocks, the metal group in this respect is sharing the fate of other war equities, that is, their excellent current position is largely ignored and the longer range outlook is made the prinicipal determinant of market valuation. Justly or not, this has not favored metal shares which therefore were unable to rise from their depressed status while the market was going strong. Recent political events, bringing to the fore the possibility of earlier than expected peace, will only tend to increase their handicap.

Output of non-ferrous metals under the stress of enormous war demands has been stepped up tremendously everywhere and the mining industries are straining to boost production still further to meet the insatiable appetite of a highly mechanized war machine. It seems, however, that further expansion is meeting difficulties hard to overcome. Even a small further increase in copper production presupposes some improvement in the labor situation which of late has become increasingly unsatisfactory. Zinc production will probably be impossible to push beyond 1942 levels because of the dubious ore position. Lead output may even decline somewhat this year because more vital mining activities may get first call on supplies and available labor. Aluminum and magnesium production alone is scheduled for very considerable further expansion as new Government plants are completed and put into operation. Excepting the latter two, then, prospects for the remainder of the war point to no better than maintained production of the principal base metals. By the same token, earnings can be expected to hold up fairly well, supported by Government price premiums for high-cost producers and by upward revision of over-quota production to compensate for rising costs generally. With output static, at about current peak levels, no marked betterment in earning power is indicated; some producers may show moderate declines reflecting the lag in price relief over mounting costs.



Sawders from Cushing

Train load of copper leaving the Peru smelter of the Cerro de Pasco Co.

All together, the availability and cost of labor together with Government price policies may be considered the principal near-term factors influencing market action of non-ferrous metal shares. But the basic element entering their market valuation remains the appraisal of their peace-time prospects, generally viewed with considerable pessimism. Considering the huge expansion of capacity which has taken place, this is perhaps natural enough but the impression has been gaining ground that this factor may well be overstressed.

There is no denying that maintenance of orderly and profitable post-war markets for base metals presents difficult problems. For this reason, those interested have become increasingly vocal in their demand for Government stockpiling of strategic metals to ease the expected pressure of excess supplies. The latest proposal emanating from western mining states suggests that all critical metals produced in this country in excess of domestic needs for a ten-year period should be placed in a mineral reservoir. Additionally, the Government is called upon to support prices to keep mines, mills, and smelters operating. At any rate, Government-owned mine supplies should be held off the market to prevent prices from sagging. Coming from interested quarters, proposals of this kind will probably have hard sledding in Congress; they serve, however, as an indication of the direction which will be taken by pressure groups. While stabilization measures of some sort are unquestionably needed, their exact nature will depend primarily on the extent and ur-

gency of the need prevailing after the war which can not now be forseen. For this reason, if not for many others one could think of, any congressional or governmental action in this direction will probably have to wait for a clearer view of the situation as it may finally shape up in the base metal industries.

The outlook for coppers was reviewed in considerable detail in a recent issue of the Magazine; there is little one could add at this time to the outlook picture then given which was rather less pessimistic than general market opinion. Over the nearer term, the knotty problem of manpower is affecting both large and small producers; it may have a somewhat deleterious effect on earnings especially in the case of the latter. However, since copper still is the scarcest of all base metals, every effort will be made to relieve the situation, if necessary even at the expense of lead production.

In lead, there is no shortage problem. Domestic output plus Latin-American imports are sufficient to meet war and restricted civilian needs, permitting complete diversion of Canadian shipments to Britain. In 1942, domestic mine output rose 7% to 492,000 tons; production this year will not gain significantly and may even decline but should still be ample to cover all needs. The lead industry, incidentally, will have a post-war problem not existing before. It arises from the reciprocal trade treaty recently signed with Mexico. The treaty provides for a reduction of 50% in import duties on lead and zinc while the emergency lasts. In the case of lead, after the war, the tariff will be reduced 20% from the original base rate. Hence Mexican lead, now coming into the country in large quantities, may continue to enter after the war and compete successfully with domestic producers or else force the latter into price reductions. Imported lead has been a threat to domestic metal before; it may become more so after the war unless proper protection for the home market is assured. For the nearer term, as far as domestic producers are concerned, the uptrend in costs points to somewhat smaller earnings than in 1942 even where a higher output is indicated such as in the case of St. Joseph Lead Co. The recession, however, should prove significant only if lead mining additionally is called upon to bear the brunt of the manpower shortage.

Zinc Smelter Capacity Greatly Expanded

In the zinc industry, extraordinary flexibility has been achieved by the erection of additional processing plants to deal with all ore grades but future emphasis will be placed on mine production which may prove a limiting factor. Premium prices evidently are not spurring mine output materially and the past increase has been mainly of lower metal yield. Smelter capacity this year will reach about a million tons compared with 864,000 tons in 1941, but mine production has not kept pace so far, although the situation should ease later in the year with the help of stepped-up imports of zinc ores. The chief domestic producing area, the Tri-State

One of the operations in refining bauxite into alumina at the plant of the Aluminum Company of America.

district, is apparently on the downgrade as far as ore reserves are concerned but elsewhere reserves are very substantial. War-time consumption continues at record levels with shipments topping 1929 levels by a large margin. Yet none of the producers is likely to improve earnings materially over last year's in view of rising costs and a possible falling off in sales of zinc oxide, due to wartime restrictions. Die-casting, since the war, has become an important new source of zinc consumption and promises further growth after the war, providing a welcome offset to the threatening decline of zinc galvanizing, due to supercession by new low-cost methods of metal plating and plastic-cladding. Such leading producers as New Jersey Zinc and Eagle Picher Lead can be expected to maintain satisfactory earning power after the war even in periods of relatively low prices, due to low production costs. Earnings of other producers, where zinc is primarily a by-product of other mining operations, are subject to diverse factors rendering prognostications somewhat difficult. In many cases, such matters as Government gold and silver policy enter the situation.

The meteoric rise of our aluminum and magnesium capacity, due to enormous war needs, has been subject to much comment. When the aluminum expansion program is completed, late this year or early in 1944, we will have a crude aluminum capacity of about 2.1 billion pounds. Since 1929, this would represent a sevenfold gain. About 55% of this total prospective capacity will be Government-owned but operated on lease by the Aluminum Corporation of America (Alcoa). About 36% will be owned and operated by Alcoa. The remaining 9% will be owned or operated by other companies. It is believed that the Olin Corporation will operate that portion of the 9% which is Government-owned; the balance will be owned and operated by the Reynolds

Metal Co. Actual production has risen tremendously. In 1940, output of primary aluminum was 412 million lbs.; in 1941, 615 million lbs.; in 1942, output is estimated to come close to one billion lbs. and next year is expected to reach the aforementioned peak. With final war-time capacity far exceeding any forseeable peace-time requirements, the problem it presents is at once apparent. The situation is similar in magnesium, where we will have an annual productive capacity of 600 million lbs., of which the Government will own almost 90%, as against 6.7 million lbs. privately owned in 1939. Just how much of this capacity can be fitted into the post-war program is one of the major question marks confronting Government and industry. In behalf of the latter, it can be said that the problem need not be too disturbing in view of the preponderant percentage of Government ownership of existing facilities. It will be primarily a Government problem as its investment in aluminum capacity will be in excess of $725 millions, in magnesium, over $410 millions. Future demand prospects, plus price and cost factors, will be the primary elements determining final disposition of this huge investment.

Except for by-product recoveries, domestic production of gold and silver will be sharply limited this year. Canadian output is also expected to shrink, due to shortage of manpower and materials, resulting in rising unit costs and contracting profits. Suspension of domestic gold production was ordered in October, 1942, and this war-time conservation measure may eventually be extended to strictly silver mining. Hence, gold stocks, as a group, derive their principal appeal from the prospect of peace, permitting return to normal operations. For the duration, their market action will be guided primarily by the ability of individual companies to weather a protracted shut-down, and ability to resume work after the war. The monetary position of gold, current and post-war, is regarded assured as a result of recent official pronouncements. British and American plans for an international post-war currency,

Position of Leading Metal Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net per Sh.	1942 Net Per Sh.	1943 Est. Net per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividends to July 1	Investment R..ting	COMMENT
Alaska Juneau	13.09	0.86	1.02	0.16	0.05	1.14	None	C+3	Though exempted from gold mine shut-down order, operations are extremely limited and complete suspension possible if operations fall below break-even point. No nearby likelihood of dividend resumption.
Aluminum Ltd.	115.31	(a)	12.70	19.35	19.00	1.06	6.00	B2	Record output from expanded capacity assured this year and dividends may again total $10.—(Canadian). Strong Empire position and post-war growth in aluminum use aid peace-time prospects though operations will be on smaller scale.
Alum. Co. of America	89.48	(a)	11.71	17.80	18.00	1.50	2.00	B1	Output from expanded facilities continues at capacity and maintenance $6 dividend probable. Dominant position assures full participation in post-war growth prospects but keener competition must be expected view industry-wide expansion.
American Metal Co. Ltd	45.56	11.73	2.06	1.82	1.80	1.25	0.50	C+2	With war-time income continuing high, dividends should equal 1942 total. Post-war outlook generally good but lower income from foreign mine investments must be reckoned with.
Am. Smelting & Rfg	39.80	0.79	5.25	3.99	4.20	3.58	1.50	B1	Capacity operations assured for duration and $2 dividend regarded safe. Post-war outlook favorable though largely conditioned on foreign mine income.
Am. Zinc,Lead & Smeltg.	11.00	3.28	d0.33	0.85	0.90	None	None	C2	Pre-war record poor and recent earnings stem largely from war stimulus. Post-war outlook uncertain in view of severe smelter competition. No dividends likely in near future.
Anaconda Copper	65.80	13.31	2.22	4.20	4.15	1.19	1.50	B2	War output high. Strong status in mining and fabricating favors good peace time outlook. Finances excellent. $2.50 dividend should be maintained.
Anaconda Wire & Cable	55.31	27.44	2.86	3.38	4.00	2.31	0.50	C+1	Controlled by Anaconda Copper Co. Outlets well diversified but pre-war earnings erratic. Some prospects for greater stabilization in post-war years but long-term dividend outlook uncertain.
Cerro de Pasco	34.83	21.12	3.13	2.88	3.00	4.44	3.00	B1	Maintenance of $4 dividend likely in view of strong financial position and substantial depletion charges. Enjoys good basic position but post-war outlook conditioned by world market.
Climax Molybdenum	29.59	6.12	3.03	5.31	5.35	2.03	1.00	B2	Dominant position in alloy trades. Increasing use of alloys presages good post-war business. Dividends should again equal $3.20 paid in 1942 as war demand continues heavy.
x Dome Mines	7.67	4.03	2.08	1.72	1.70	1.94	1.20	C+2	Near-term outlook hampered by labor and materials shortages but ample profits from gold mining expected in post-war years. $1.60 dividend (Canadian) should be maintained.
Eagle Picher Lead	18.19	5.03	0.46	1.37	1.45	0.33	0.20	C+1	Capacity output seen for duration. Because of capital outlays, dividend is likely to continue at last year's 60c. Finances restricted but improving. Expected keen post-war competition clouds longer-term outlook.
Homestake Mining	10.83	6.55	3.60	2.25	0.50	3.99	None	C+3	Leading U. S. gold producer. War-time operations restricted but large ore reserves provide good peace-time prospects. Dividends improbable this year.
Howe Sound	43.89	13.67	6.29	3.78	3.50	4.59	1.50	C+3	U. S. subsidies help current operations and 75c quarterly dividends will probably be maintained. Post-war prospects depend largely on foreign markets.
Hudson Bay M & S	15.10	5.45	1.89	2.66	2.75	1.50	1.00	C+1	Current earnings well maintained and continuation $2 dividend (Canadian) expected. Long-term prospects are largely dependent on price developments in world metal markets.

backed directly or indirectly by gold, have gone far to allay any uneasiness which existed earlier as to the future status of gold as a monetary metal. The question of the future price of gold remains, of course, unsettled; if anything, it should go higher rather than lower after the war, affording excellent profits to the gold mining industry provided that costs can be kept under control. On the other hand, the future of silver, of which we have a large Government hoard, remains obscure. While it is reasonable to assume that silver will play its part in the prospective post-war stabilization of currencies, it would be difficult if not impossible at this time to anticipate its future status and that of the silver mining industry. Its fate remains entirely in the hands of the Government, despite steadily growing industrial use of the metal. Thus over the longer term, gold shares offer attractive speculative prospects. The earnings outlook of silver equities, however, is distinctly uncertain as Government subsidies cannot be expected to continue as favorable as at present.

With the growing use of alloy steels, risen enormously since the war, the producers of alloy metals offer interesting prospects. Outstanding is International Nickel Co., producer of some 85% of the world's total nickel output. War-time use of nickel has risen to about five times 1938 consumption, necessitating considerable expansion of mining and refining capacity. While demand, and with it production, will decline with the end of the war, new applications and expanding use generally should assure continued secular growth of nickel sales despite competition of numerous ferrous alloys which have recently come to the fore as a result of nickel shortages. Other alloy metals, such as Molybdenum, Manganese and Vanadium, likewise enjoy established markets and have distinct growth possibilities. While subject to the highly cyclical swings of the trades and industries using specialty steels, such producers as Climax Molybdenum and Vanadium Corp. should do well during the prospective post-war boom. Climax particularly (*Please turn to page 543*)

Position of Leading Metal Stocks—*Continued*

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Average Net per Sh.	1942 Net Per Sh.	1943 Est. Net per Sh.	1936-39 Average Dividend Per Sh.	1943 Dividends to July 1	Investment Rating	COMMENT
Inspiration Cons. Copper	25.35	2.00	0.59	1.44	1.60	None	0.75	C+1	Govt. subsidies bolster war-time earnings which should be well sustained barring deterioration of labor supply. Post-war prospects unpromising as return to marginal position probable.
International Nickel	15.03	4.34	2.55	2.15	2.30	1.89	1.00	B1	Capacity operations assured for duration and maintenance of $2 dividend likely. As world's leading nickel producer, good post-war prospects are indicated, assisted by ability to control nickel price.
Kennecott Copper	37.17	14.72	3.05	4.51	4.55	2.24	1.00	B2	Maintenance of earnings and dividends assured for duration. Leading position and low producing costs enhance long-term outlook though results from Chilean operations will vary with world market conditions.
x Lake Shore Mines	2.85	1.92	4.10	1.14	1.00	4.69	0.40	C+3	Second ranking Canadian gold producer. Labor shortage hinders operations and moderate earnings decline indicated. Long-term outlook clouded by rising costs and deterioration of ore grades. Full dividend maintenance not assured beyond medium term.
Magma Copper	19.74	14.70	2.94	1.46	1.45	2.50	0.75	B2	High output continues but rising costs require further Govt. price benefits to maintain earnings. One-man nature of operations makes long-term outlook uncertain though ore reserves believed sizable. Continuation $2 dividend expected, as finances are strong.
x McIntyre Porcupine	25.83	23.70	4.53	3.77	3.00	2.00	2.22	C+3	Fourth ranking Canadian gold producer. Operations affected by labor shortage but satisfactory returns anticipated. Longer-term prospects good. Regular dividends should be mainteined but extras are uncertain.
Miami Copper	25.54	5.31	0.43	1.32	1.40	0.04	0.25	C2	War-time earnings good and dividends should equal last year's 50c. High cost factors and competition render post-war outlook uncertain and return to marginal position likely.
N. J. Zinc	(b)	(b)	2.76	3.68	3.50	2.88	1.50	B2	Largest U. S. zinc producer. Leading position assures good earnings during and after the war. Dividends, paid for 60 years, should continue liberal and this year may equal last year's $3.25.
Phelps-Dodge	33.55	4.97	1.45	1.85	2.00	1.34	1.20	B2	Second ranking domestic copper producer. Low operating costs and expanded capacity enhance favorable peace-time status. $1.60 dividends probable this year.
St. Joseph Lead	16.53	10.41	2.31	3.17	3.00	1.63	1.00	B2	Largest American lead producer. War-time operations and earnings high. Strong ore position and dominant trade status favors good earnings after the war. Usual $2 dividends expected.
Silver King Coalition	7.97	0.83	0.52	0.20	0.25	0.49	0.30	C2	Labor shortage and declining ore yields affecting output but war-time earnings should hold around recent levels. Uncertainties over ore reserves and dependence on Govt. silver policy becloud longer term outlook.
U.S. Smlt's, Rfg. & Min.	86.69	(a)	7.04	6.86	4.00	7.63	2.50	C+3	With suspension of Alaskan operations, 1943 earnings will drop sharply. Future of gold and silver price will importantly affect long-term prospects which generally held good. Quarterly dividend reduced from $1 to 75c. but maintenance at this level is not assured.
Vanadium Corp.	35.82	6.67	1.62	1.34	1.50	0.50	0.50	B1	Capacity operations expected for duration despite expanded facilities. Peace-time outlook enhanced by increasingly wider application of specialty steels and fair growth prospects exist. Larger dividends than the 25c. paid in 1942 are probable.

x—Recommended for appreciation. (a) None available because of excessive prior obligations. (b) No balance sheet available. d—Deficit.

SIX STRATEGIC HABIT STOCKS

Offering Safe Income Return

BY J. C. CLIFFORD

AT A TIME when the stock market has presented sharp run-ups and equally drastic declines, and when the air is thick with conjecture as to the multitude of unknown factors which will influence future earning power, the investor may well ask which common stocks are fairly independent of the rise and fall of the general economy and would remain at a fairly stable level. Are there any stocks which have gone through panic and war, boom and depression, which have paid fair dividends throughout and retained at least substantial earning power in those agitated periods? And, if there are such stocks, are they not too high priced in view of the serenity with which they endow their fortunate holders?

Richmond, Virginia, plant of the United States Tobacco Co.

Happily for the investor who seeks such qualities, there are at least a dozen or so companies which have behaved in this desirable fashion, and a half dozen or so are even attractively priced. These stocks belong to the "habit" group, that is, their products cater to those wants in consumers which are not absolutely necessary for survival, like food, but in which the need for repeating the sensation is so deep that their adepts would rather reduce food (in some cases) than diminish their consumption of these coveted commodities. The Chewing Gum, Playing Card, Snuff and Chewing Tobacco, Soft-Drink, Liquor, and Candy tidbit have been taken as six representative "habit" industries.

The experience of mankind has always been that they are the surest source of revenue. The Excise in Great Britain, for centuries, has been based on drink and tobacco; it was followed by the Internal Revenue of the United States being based thereon from the foundation of the Republic. From the days of Pitt and Washington, it has been an axiom that the sales of this type of commodity vary the least and therefore that the government can rely on them to float the ship of state through bad weather. The age-old demonstrated wisdom of government treasuries should not be ignored by the investor. What has yielded them an infallible revenue should yield him an infallible income.

Since 1926, the consumption of snuff has never varied more than 9% from boom to depression. It has, perhaps, the most predictable sale of any known goods. Chewing Tobacco has gently declined but smoking tobacco, like snuff, has shown no more than an 8% extreme variation during the last thirteen years. Soft drinks increased in sales from 1929 to 1939 (a period largely covered by depression) by two-thirds, Chewing Gum, like snuff, has remained static for the elapsed period, and though its sales show wider variability, the profits of its leading companies are quite uniform. Playing card sales show a fairly monotonous trend, about rivalling population growth, but rarely declining to any disquieting extent. They have also been consistent revenue producers for centuries, and in most countries, for that reason, are a government monopoly.

Liquor has, of course, been affected by its legal position for a long period, but since Repeal, it has shown a fairly stable consumption, the variability being within 15%, for the most part. It has, of course, special problems, due to its utilization for industrial alcohol production, but for peace, it must be constructed as a stable "habit" earner. Small confections, of the Life-Saver type, show much more stability than confections as a whole. In the earlier part of the century, they did not have much of an adult following, but in the last two decades, their sales have closely paralleled the increase of population.

The fact that the consumption, earnings and dividend records of these six companies are among the most stable known, should not lead the investor to the easy idea that they are assured, like the service on government bonds. Since they are the apple of the eye of avid government treasuries, their only safety from constantly increasing taxation is in consumer resistance at given levels. In wartime, they have supply difficulties, the soft drinks companies with sugar shortages and crown tops, the chewing gum companies with sugar, glucose, chicle and chicle gum

substitutes and with flavoring substitutions, or the liquor industry with war transformations and being constantly haunted by the "dry" spectre. Business would not be business if it were absolutely sure. But in spite of the hurdles that any business must face, it can be stated that the six companies presented for investment herein show the best record for coping with these variables and yet producing fairly even operating results, due to their firm roots in the cherished habits of their customers.

United States Tobacco

United States Tobacco is not only the largest snuff manufacturer, but it has the largest geographical distribution as well. The company has increased its position in the smoking tobacco business. Its brands, Copenhagen Wet Snuff and Burton's Scotch Dry Snuff, have high standing, and Right Cut chewing tobacco has the largest following. Dill's Best is its smoking tobacco leader. Its net sales have crept upward steadily, and earnings on invested capital would be equally monotonously good, if not for increased corporate taxes. The common stock paid a dividend even in 1932. Its dividend policy is liberal, closely following net income. In view of the fairly stable business, its working capital is adequate. In peacetimes, when taxation was less of a factor, it showed 1936-1940 average net of $1.99 and disbursed $2.02 in average dividends, thus confirming the strong liquid capital position, which required no further provision. During the depths of the depression, when earnings were excellent ($1.91 in 1932; $1.76 in 1933), dividend disbursements, though good, necessarily had to allow for increases of working capital. Net quick assets per share now exceed $9.50. At the recent price of 22½, and assuming a dividend of no more than $1.20, the indicated yield is 5.33%. Actually, the average dividend for the next five years is likely to exceed $1.40. Increased taxation seems excluded by price appeal of its products.

United States Playing Card

This company is the leading producer in its field. It has some smaller competition, but there is no price-cutting or other such income reducing feature in this group. The new kem-cards, made of plastics, and apparently eternal, are too expensive to compete in any but the luxury market. The "Tally-Ho," "Congress" and "Bicycle" brands are its leaders. The company carries on an aggressive advertising campaign to popularize clean cards. It paid dividends in the worst periods. $1.00 was disbursed in 1933. In 1939, the regular dividend was stepped up to $2.00, and extras have been paid in every year, so that a $2.50 basis can now be assumed. 1943 first half-year earnings were $1.71 as against $0.99 in the like period of 1942. As dividend policy is closely aligned with earnings, higher payments are likely. The production of playing cards has doubled this year as against 1942. A large part of this production has been destined to the armed forces, but most of the gain reflects increased purchasing power. The investor should disregard this spurt, however, and concentrate on the proven long-term earnings record, which can be relied upon to continue.

The long-term sales tendency is upwards. Between 1934 and 1940, the average annual gain was 2%. Since then, it has been more impressive, but this is exceptional. Operating income increases much faster than gross receipts. The heavy government tax of 13 cents a pack does not seem a barrier to consumption. In 1934-1940 inclusive, seven peace years revealed average earnings of $2.16, the tendency within those years being upwards. Earning power, were corporate taxes to be moderately reduced, should exceed $3 steadily, even allowing for a shrinkage in sales. Net quick assets per share exceed $20.

At the recent price of $37.50 and dividend of $2.50, the yield of 6.67% is exceptionally attractive.

Life-Savers

This compact producer of small confections, consisting of mints, like Pep-O-Mint, Wint-O-Green, and Candy drops in eight flavors, as well as cough drops, has shown earnings as high as $754,000 in 1933, slowly working up to $1,030,000 in 1941. Owing to taxation, net went back slightly to $950,000 in 1942. It has revived to top figures, the first six months of 1943 showing an advance to $1.48 per share as against $1.24 in 1942. Operating profit was fully a half higher.

In view of the difficulties experienced with sugar, this is a notable earnings achievement. Owing to the popularity of their products with the army, at post exchanges, government orders have been exceptionally heavy. This type of consumer, of course, will produce even more profitably for the company, once he has returned to civilian life. The company has managed to obtain these results with 30% less in raw material basis than pre-war.

If the increase in (*Continued on page* 542)

P. K. Polishing Department of the Wm. Wrigley Jr. Company, Chicago, Ill.

FOR PROFIT AND INCOME

Group Movements

The MWS index of 273 stocks shows a decline of 12.8% from the year's highs and marks a still further fall of low priced stocks relatively to the higher priced, thus making the market configuration more conservative. At the least, it re-establishes values on the basis of reasonable expectation of corporate economic future instead of on the vague hope that another purchaser will relieve the buyer of equities at a higher figure, for no valid reason. Groups that decline more than the average were, in the order of steepness of decline, shipbuilding, 27%, railroads, 22%, Bus Lines, 22%, Aircraft, 21%, Rail equipments, 20%, automobile and automobile accessories, 19%, Non-Ferrous Metals, 18%. In all of these fears that war prosperity would not be speedily compensated in peace, were the driving force.

Yet sympathetic market declines did not follow strict logic. For example, sugars went down 15%, although peace would rather favor them, paper stocks, 14%, radio stocks, 18%, and Air Lines, 15%, despite their vaunted peace prospects. Those stocks which resisted the most, given in the order of their steadfastness were, Variety stores, down only 3%, Meat Packing, 3%, Food chain stores, 4%, Chemicals, 6%, mail order, 8%. In these the market retained its peace pattern, with the possible exception of chemical stocks, which seem to enjoy market confidence irrespective of external circumstances. On the other hand, furniture stocks, (definite peacetime gainers) went down more than the market average, or 16%. It is still true that every period of accentuated market action, whether on the upside or the downside, moves too quickly to analyze, and that in this lack of congruity, the aware investor can find his treasured opportunities.

The Gold Stocks

When the markets fell, gold stocks went with it, losing 14% of their value, about the same as Investment Trusts. A deflationary market put no premium on them. Yet, within a week of their decline, they diverged from the market and have been up sharply. One may wonder whether this does not fly in the face of common sense. Surely gold shares can be worth a good deal more only if the price of gold is to be raised. If the price of gold is increased, the tendency, generally, is towards higher commodity prices, if not immediately, at least within a calculable period on which the investor may rely. But gold shares have varied increasingly from the market.

The investor suddenly recalled that the United States, Russia, Free France and the British Em-

Television on an important commercial scale only awaits the end of the war. On the engineering side, it is already a reality—as witness this picture of a broadcast being made over WRGB, the General Electric Company's television station at Schenectady, N. Y.

pire are winning the war, and that between them they either produce or hold over 90% of the gold known. They have a crucial interest in keeping up its value, whether as producers or as holders. Only the defeated nations have any interest in reducing its value or using another currency basis. The certainty that it is the central metal in any reorganization of world currencies, has put a premium on its mining. As gold mining has either been constricted or eliminated for the duration, everywhere but in South Africa, the gold stocks have lost their old following who held them for the sake of cashing monthly dividends. When they resume production, as they soon must, and, assuming that the Treasury raises the price of gold to $41.34 an ounce (legally easy with Congressional authorization), then a stock like the Homestake could pay at least 45 cents a month. At $38, it is cheap, even allowing for capital depletion. And capital depletion has often proved a bogy that took long in realizing. As for Canadian gold stocks, the fact that capital gains are not taxable in the Dominion has made them a refuge for people who want to see real money some day, not excessively curtailed by income taxes.

Illustrating Selective Market Trends

STOCKS WHICH HAVE RECEDED LESS THAN 10 PERCENT FROM THEIR 1943 HIGH

	Close Dec. 31, 1942	High 1943	Recent Price
Am. Safety Razor	9¼*	15¼	14
Beech-Nut	92*	113	113
Bon Ami "A"	93*	96¼	95½
Borden	22¾	29⅛	28⅝
Corn Products	55⅜xdiv.	61⅛	59½
Detroit Edison	17¼	22⅜	20⅞
General Mills	84¼*	103¼	103¼
Kroger Grocery	27	32⅜	30¼
Newberry, J. J.	31*	56½	55
Pacific G & E	23⅛	30	29¼
St. Oil Calif.	29¼	40	38
Swift	22⅞	27⅜	25⅝
Walgreen	20¼	28⅛	26⅝
Wrigley	57	70	68⅛
Yale & Towne	23⅜	30⅛	28

STOCKS WHICH HAVE RECEDED 25 PERCENT FROM THEIR 1943 HIGHS

	Close Dec. 31, 1942	High 1943	Recent Price
Atlantic Coast Line	27¼	38	28½
Am. Locomotive	7⅜	17½	11⅝
Am. Type Founders	7⅛	12⅜	9
Boeing Airplane	15	21¼	15⅛
Cent. R.R. of N.J.	2½	18½	9⅞
Consolidated-Vultee	(N)	21½	14⅜
Consolidation Coal	7⅝	16½	11
General Railway Signal	12⅜	25½	19½
Gotham Hosiery	4	9⅜	6¼
Illinois Central	8⅛	16¾	11¾
Inspiration Copper	10	15⅝	10¾
New York Shipbuilding	21⅜	26⅜	17¼
Savage Arms	9¾	12½	7¾
Stokely Brothers	4	14	10½
Va. Carolina Pfd.	38½	68½	47½

* Intermediate between bid and asked.

(N) Stocks quoted separately.

The Meat Packing Stocks

No group has resisted the decline as sturdily as the meat packing stocks. The reasons are not far to seek. After every war there is an unprecedented world demand for meat. The rationing of this basic food has been carried to extreme lengths in every belligerent nation, and yet, in every cool country, it is the fundamental protein diet. No matter what the calculations that beans have an equal protein content or that vegetables are better for health, carnivorous man rushes to buy as much meat as he possibly can as soon as it is available. Beef has been shunted everywhere in favor of pork products within the meat supply and veal has almost disappeared in Europe, where, in the Latin countries, it was the most popular dish. Not merely is the supply of cattle large and slaughterings bound to catch up, so that the gross turnover will be greater, but the freedom of shipping and the increasing availability of refrigerator carriers when war is over, indicate that the maximum of meat will move to the markets at a better price level than that now prevailing, on a world basis. In this group, while the sound stocks like Swift are to be considered for income and eventual appreciation, the companies with a chequered financial history such as Armour and Wilson offer the best run-up possibilities, some time this winter, for investors with tenacity and the ability to close their eyes to the temporary looks of quotations. Every ratio, whether of cost, supply, or demand, is increasingly favoring these stocks and their multiple side-businesses.

The Pending War Loan Drive

The opening of the War Loan campaign on September 9th by Secretary Morgenthau will carry with it the good wishes of all who expect it not only to finance the war but also to mop up surplus savings, that most liquid form of inflation potential. The private deposits in our commercial banks are about equal to this figure, so that, even allowing for subscriptions to the War Loan out of savings banks reserves and hoarded currency, this ought to eliminate the overabundance of ready cash which has dabbled with cheap stocks merely because money was burning in the pockets of buyers. There are, however, several possibilities that are against the full deflationary effect of this campaign. One is that the holders of present bonds and stamps may realize some of these in order to go through the "front" of subscribing and that others may borrow against collateral and thus expand bank credits, and lastly, that the hoarder, by nature is incapable of buying bonds, so that most of the subscriptions will come from those who have the smaller reserves. Whichever hypothesis is granted, the net result must be deflationary, if not for fifteen billions, then a least for ten billions. As such it diminishes irresponsible activity in the stock market and may permit the bargain hunter to have a few more weeks in which to look for his possibilities.

Furnishing Stocks Underrated

It is hard to see why furnishing stocks went down more than the market, unless hope deferred maketh the heart sick. If stocks went down after the fall of Mussolini because we are in a peace phase, then the long wait for house furnishing to revive is within a reasonable period of being gratified.

If the market is in the doldrums, due to the deflationary War Loan, then the thoughtful investor may find that he can pick

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Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Associated Gas & Electric Reorganization

I am advised that in the proposed plan of reorganization of the Associated Gas & Electric Co. and Associated Gas & Electric Corp., the 3½% (1978) income bonds of the latter company are to be allowed 2.96 shares of the common stock of the new company for each $1000 of bonds.

Do you advise holding these debentures until the reorganization is completed or selling them at the present market price? What can they be sold for?—W. H. A., Easton, Md.

The Associated Gas & Electric Corporation and the Associated Gas & Electric Company have been under bankruptcy proceedings since January 10, 1940 and have been operated by Trustees appointed by the Court. During this period, considerable progress has been made in adjusting the system's affairs but there is still much to be done in the way of reconstruction. Early in 1943, the Trustees expressed the view that reorganization of the companies need not await the accomplishment of the entire program and recommended early action, leaving the solution of other problems for the surviving company. In accordance therewith, the Trustees recently submitted to the Court a proposal for a surviving company to take over the assets of the two estates, other than assets distributed pursuant to the plan and recovery claims. The new capitalization would consist of about $11,000,000 in new senior debts and 7,500,000 shares of new common stock of $5 par value, with a possibility of an additional $8,000,000 in new debentures to be distributed to holders of the Associated Gas & Electric Corp. 8's, due 1940, provided their claims are not otherwise satisfied. The cash required for the reorganization is expected to be in the vicinity of $38,000,000 and will be met from cash on hand, dividends, liquidation of assets, inter-corporate transfers and proceeds from the issuance of $11,000,000 new senior debt.

Under the proposed plan, the Associated Gas & Electric Corporation 3½% bonds of 1978 receive from 2.96 to 3.06 new shares of the new company, these two figures representing the highest and lowest amounts to be distributed depending on coupon of old issue. If the new stock sells at $5, the value per bond would be from $14.80 to $15.30 per $100 bond, with the new stock at $7 per share, the bond would be worth from $20.72 to $21.42 and if the stock sold at $10 per share, this would be equivalent to $29.60 to $30.60 per $100 bond. The issue held by you has had a price range this year from a low of 14 to a high of 25, last around 21. This would place a value of about $7 on the new stock. Retention of this speculative issue apears justified on basis of further reconstruction of the system and should eventually result in a higher price for this issue.

Hudson & Manhattan Railroad

As a subscriber to your Magazine, will you please send me pertinent information on Hudson & Manhattan R. R. "A" 1957 refunding bonds, currently quoted at 58½, and would you be kind enough to give me your opinion on the following situation. I am an associate with a concern owning $6000 of these bonds purchased January 1937, having written the bonds down to $3000 on our books, which in reality is a return of 10% on the figure which these are carried on our books. Would it be the best policy to sell these bonds at current price or to hold them?—J. A. McB. Salem, W. Va.

Hudson & Manhattan Railroad 1st refunding 5's of 1957 carry a speculative rating of C 1 plus. The company earned its interest charges 1.15 times in 1942 as compared with 1.17 times in 1941. For the six months ended June 30, 1943, charges were earned 1.69 times vs. 1.56 times in the first half of 1942. The Interstate Commerce Commission has just granted this railroad a fare increase from 8 cents to 10 cents, or eleven tokens for a dollar, for the duration plus six months. Th's would indicate increasing receipts on the same traffic. While this railroad should continue to do better for the duration due to restrictions on auto-

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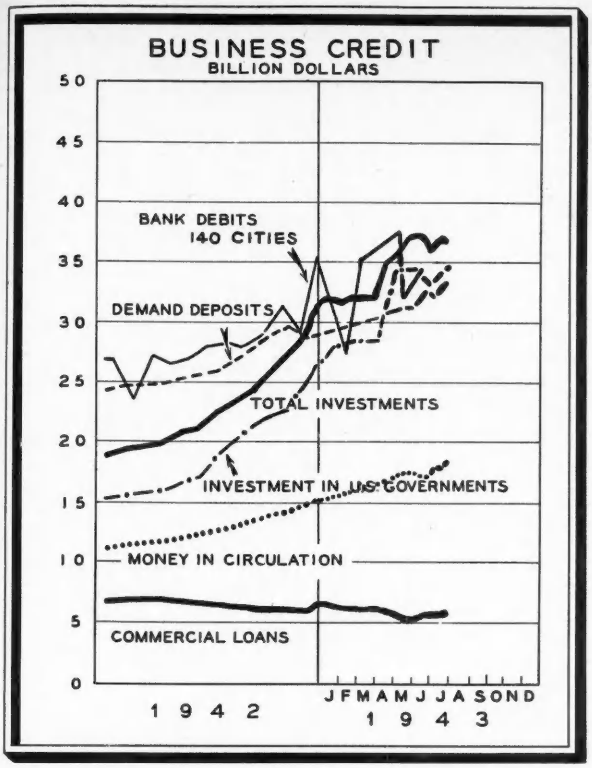

CONCLUSIONS

MONEY AND CREDIT—In the 15 months ended Mar. 31, demand deposits owned by business concerns jumped $12 billion (47%) to $38 billion; while personal checking accounts rose only $3.8 billion (33%) to $15 billion.

TRADE—June retail store sales totaled $5.23 billion—16% above last year, against six-month gain of only 12%. Wholesalers' inventories on July 1 were 25% below last year.

INDUSTRY — Despite charges of "complacency", labor efficiency has not been deteriorating recently.

COMMODITIES—Commodities rise irregularly in belief that supply will continue to exceed demand, regardless of war's duration. Striving to stabilize food prices, Government plans to buy farm products direct and resell at a loss.

The Business Analyst

Per capita **business activity** recovered somewhat farther during the past fortnight, with all components of this publication's weekly business index, save lumber shipments, reporting mildly better than normal seasonal gains. July as a whole, however, sagged to 129.8% of the 1923-5 average, from 130.5 in the preceding month; but was 6.8 ahead of July, 1942. Without compensation for population growth, the index averaged 155.5 in July, compared with 156.4 for June, showing an increase of 6.1% over July, 1942.

* * *

In our last issue it was suggested that failure of armament production during recent months to meet possibly overoptimistic goals may be explained on several grounds other than "complacency". The thought is further supported by official statistics showing that **labor efficiency** in the durable goods field, as measured by production per employee-hour, rose half of one per cent. in the three-month interval, February to May—the latest month for which data are available.

* * *

For the month of June, sales by the nation's **retail stores** totaled $5,228 million—16% ahead of last year compared with a six-month gain of only 12%. **Wholesale sales** were 9% above last year, against only 5% for the half year. Cost value of **wholesale inventories**

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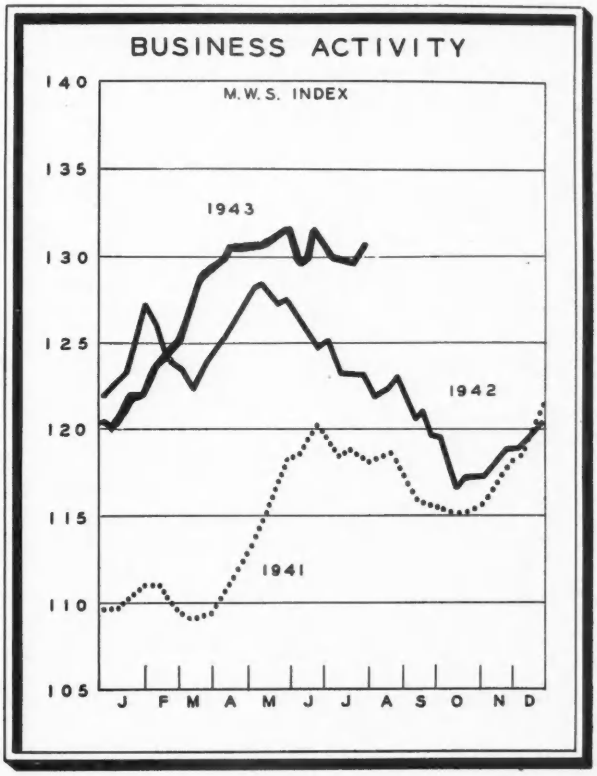


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Aug. 4	1.59	1.53	1.12	0.43
Cumulative from Mid-1940	Aug. 4	117.6	116.0	40.2	14.3
FEDERAL GROSS DEBT—$b	Aug. 4	142.7	141.1	77.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Aug. 4	33.7	33.4	26.1	24.3
Currency in Circulation	Aug. 4	18.0	17.8	12.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Aug. 4	4.93	5.05	3.72	3.92
100 Other Cities—$b	Aug. 4	6.84	6.90	5.73	5.57
INCOME PAYMENTS—$b (cd)	June	12.16	11.33	9.65	8.11
Salaries & Wages (cd)	May	8.17	8.03	6.39	5.56
Interest & Dividends (cd)	May	0.49	0.75	0.48	0.55
Farm Marketing Income (ag)	June	1.38	1.40	1.07	1.21
Includ'g Govt. Payments (ag)	June	1.41	1.44	1.11	1.28
CIVILIAN EMPLOYMENT (cb) m	June	53.4	52.1	53.3	50.2
Agricultural Employment	June	11.9	10.8	11.5	9.0
Employees, Manufacturing	June	16.0	15.9	14.3	13.6
Employees, Government	June	5.9	5.9	5.0	4.5
UNEMPLOYMENT (cb) m	June	1.2	0.9	2.8	3.9
FACTORY EMPLOYMENT (lb4)	June	168	167	150	141
Durable Goods	June	227	226	189	168
Non-Durable Goods	June	122	121	119	120
FACTORY PAYROLLS (lb4)	May	313	310	229	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	May	45.2	45.0	42.9	40.3
Hourly Wage (cents)	May	95.3	94.4	83.5	78.1
Weekly Wage ($)	May	43.08	42.48	35.82	32.79
PRICES—Wholesale (lb2)	July 31	102.8	102.9	98.6	92.2
Retail (cdlb)	June	134.6	134.9	123.9	116.1
COST OF LIVING (lb3)	June	124.8	125.1	116.4	110.2
Food	June	141.9	143.0	123.2	113.1
Clothing	June	127.9	127.9	125.3	113.8
Rent	June	108.0	108.0	108.5	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	June	5.23	5.11	4.50	4.57
Durable Goods	June	0.90	0.89	0.84	1.07
Non-Durable Goods	June	4.33	4.22	3.66	3.47
Chain Store Sales (ca)	June	178	171	171	151
Dept. Store Sales (rb) (1)	June	129	125	104	116
Dept. Store Stocks (rb2)	June	100	90	136	95
COMMERCIAL FAILURES (db)	July	203	265	764	842
MANUFACTURERS'					
New Orders (cd2)—Total	May	267	287	270	212
Durable Goods	May	392	409	432	265
Non-Durable Goods	May	187	197	167	178
Shipments (cd3)—Total	May	245	253	203	183
Durable Goods	May	335	338	254	220
Non-Durable Goods	May	175	186	164	155
Inventories, end Month (cd3)	May	176	175	170	153
Durable Goods	May	213	214	190	170
Non-Durable Goods	May	143	153	142	137

PRESENT POSITION AND OUTLOOK

(Continued from page 535)

on July 1 was 25% lower than a year earlier. **Department store sales** in the four weeks ended July 31 were only 12% greater than a year earlier, compared with a 15% increase for the year to date.

* * *

The Federal Reserve Board is to be congratulated upon supplying us at last with the facts relating to the war-nurtured **growth in bank deposits.** According to a recent survey, which will be conducted semi-annually hereafter, demand deposits in all commercial banks on Mar. 31 totaled $53 billion, of which business concerns owned $38 billion and personal checking accounts the remaining $15 billion. In the fifteen months ended Mar. 31, business deposits jumped $12 billion, or 47%, while personal deposits rose only $3.8 billion, or 33%.

* * *

The rapid increase in business deposits is helping to place industry in a strong working capital position to meet **post-war contingencies,** and it is hard to understand the alarm voiced in Government circles over such a comparatively mild increase in personal checking accounts. Should the total war-time expansion in personal deposits exceed three times the gain between Dec. 31, 1941, and Mar. 31, 1943—say $12 billions—the squandering of all this increase during a single post-war year, a highly questionable assumption, would add only 8% to the public's total expenditures and thus justify a rise of only 8% in the general price level.

* * *

Pointing out that half of the great rise in prices related to World War I took place after the Armistice, Government officials are now stressing the danger of **post-war inflation** resident in the present piling up of personal savings. Some of our readers who were old enough at the time of the Armistice to understand economic happenings in those days will recall that the post-war skying of prices then was caused, not by squandering of savings, but by price gouging on the part of producers and distributors. Price advances outstripped the public's purchasing power by such a wide margin that goods backed up on dealers' shelves, factories had to shut down and dismiss workers. The resulting depression was generally blamed upon the so-called **"buyers' strike".**

* * *

To avoid repetition of price gouging after the present war, **price ceilings** should, and probably will, be continued for a period after hostilities cease. With this comparatively simple precaution, there should be no disastrous post-war inflation, however large the backlog of personal

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	July 31	130.7	130.4	122.5	118.2
(M. W. S.)—I—np	July 31	156.5	156.2	145.5	139.5
INDUSTRIAL PRODUCTION (rb3)	June	201	203	176	167
Durable Goods, Mfr.	June	302	303	244	215
Non-Durable Goods, Mfr.	June	147	147	136	141
STEEL INGOT PRODUCTION (st)m	July	7.38	7.03	7.14	6.96
Cumulative from Jan. 1	July	51.24	43.87	49.68	75.69
ELEC. POWER OUTPUT (K. W. H.)m	July 31	4,227	4,196	3,649	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	Aug. 5	47	41	164	93.5
Cumulative from Jan. 1	Aug. 5	2,110	2,063	6,107	5,692
PETROLEUM—bbls. m					
Crude Output Daily	July 31	4.13	4.12	3.38	4.11
Gasoline Stocks	July 31	74.98	75.71	79.45	87.84
Fuel Oil Stocks	July 31	66.88	66.99	77.98	94.13
Heating Oil Stocks	July 31	36.36	35.89	37.83	54.85
CARLOADINGS—t					
Grain	July 31	886	884	864	833
Coal	July 31	59	59	44	43
Manufacturing & Miscellaneous	July 31	178	178	191	150
Mdse., L. C. L.	July 31	386	386	395	379
Ore	July 31	99	97	90	156
GENERAL					
Bituminous Coal Prod. (st)m	July 31	87	89	88	36
Lumber Production (bd. ft.)m	July 31	12.10	12.15	11.23	10.80
Paperboard, New Orders (st) t	July 31	667	667	693	632
Cigarette Production—b	July 31	123	110	95	132
Portland Cement Shipments	June	20.89	18.48	18.52	17.14
(bbls.) m	May	12.08	12.75	16.32	13.72

PRESENT POSITION AND OUTLOOK

savings. Since it is politically impossible to mop up savings with adequate taxation, why not change the theme song and harp upon the virtue of socking away earnings against the uncertainties of post-war rainy days? Large accumulated savings should act as a buttress against possible post-war unemployment.

* * *

That such propaganda would be more in tune with the inner thoughts of the Administration may be gleaned from a report recently submitted by a group of 12 Government officials named by President Roosevelt to consider **post-war demobilization and readjustment problems.** Contrary to the rosy beliefs voiced by post-war Utopians, this report visualizes an unemployment peak of around 9 million in the second or third quarter after cessation of hostilities, and a decline in wages and profits to 1935 or 1940 levels.

* * *

Class I **railroad net income** in the first six months totaled about $449 million, an increase of 55% over the first half of 1942. Owing mainly to heavier tax reserves, however, net income for June amounted to only $70.9 million, compared with $77.7 million a year earlier. According to the National City Bank, **net income** of the first 340 industrial corporations to report for the first half averaged 14% larger than in the like period of 1942.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd—Commerce Dept., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cd lb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. db—Dun & Bradstreet's. en—Engineering News-Record. I—Seasonally Adjusted Index. 1923-5—100. lb.—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—End of Mo., Federal Reserve Board, seasonally adjusted index, 1923-5—100. rb3—Federal Reserve Board, seasonally adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

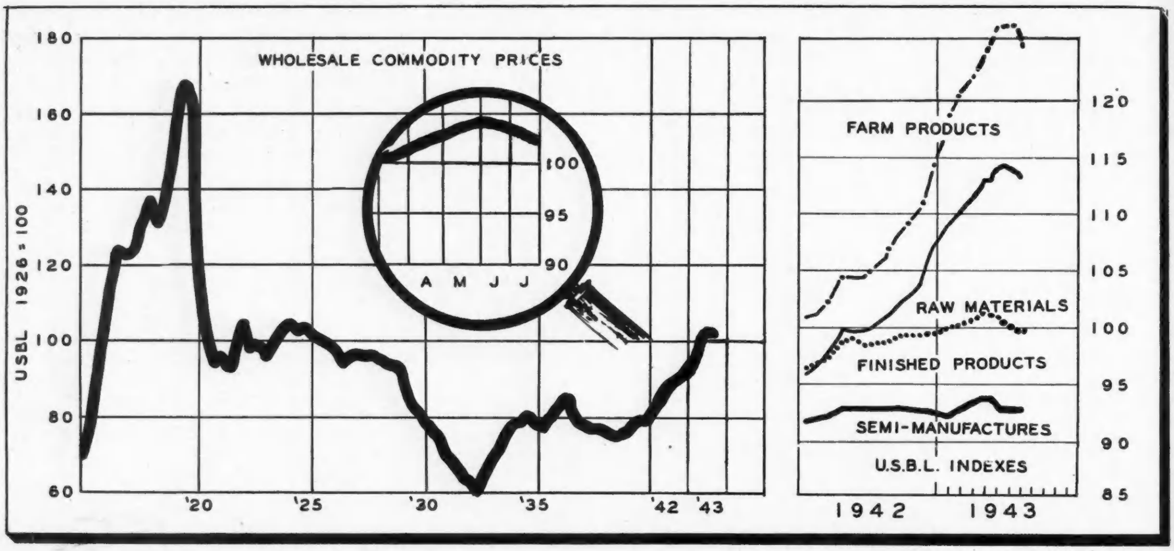
No. of Issues (1925 Close—100)	1943 Indexes July 24	July 31	Aug. 7	Aug. 14
273 COMBINED AVERAGE	88.7	79.8	78.4	81.1
3 Agricultural Implements	146.9	136.3	136.3	137.7
9 Aircraft (1927 Cl.—100)	162.0	145.2	140.4	142.2
5 Air Lines (1934 Cl.—100)	528.4	472.7	471.9	505.4
5 Amusement	76.8	68.2	67.4	70.1
12 Automobile Accessories	135.7	120.0	116.8	124.5
13 Automobiles	19.9	17.3	17.1	18.0
3 Baking (1926 Cl.—100)	14.6	13.1	13.1	13.1
3 Business Machines	188.8	172.0	168.6	177.1
2 Bus Lines (1926 Cl.—100)	89.7	78.5	76.8	80.6
5 Chemicals	190.4	177.0	179.7	181.0
13 Construction	36.4	32.4	32.2	33.4
5 Containers	231.3	212.5	215.4	216.8
8 Copper & Brass	78.0	71.4	70.1	70.2
2 Dairy Products	40.5F	38.1	37.9	38.6
6 Department Stores	29.9F	26.8	26.6	28.5
5 Drugs & Toilet Articles	89.6	82.6	81.2	82.6
2 Finance Companies	232.0	214.9	219.8	223.3
6 Food Brands	127.8	120.9	120.8	121.7
2 Food Stores	47.8C	45.4	45.7	45.6
4 Furniture	57.5	52.3	50.9	54.1
3 Gold Mining	875.3	802.8	790.0	841.2
6 Investment Trusts	37.9	33.4	33.2	33.4

(Nov. 14, 1936, Cl.—100)	July 24	July 31	Aug. 7	Aug. 14
100 HIGH PRICED STOCKS	67.75	62.80	61.99	63.69
100 LOW PRICED STOCKS	84.91	74.85	73.31	76.70
3 Liquor (1932 Cl.—100)	297.1F	270.8	269.9	279.2
8 Machinery	110.5	101.5	101.0	102.9
2 Mail Order	88.3C	81.8	80.9	85.3
3 Meat Packing	58.1C	56.3	55.8	56.3
10 Metals, non-Ferrous	146.0	132.4	127.6	130.5
3 Paper	13.3	12.0	11.7	11.9
21 Petroleum	141.4	127.8	125.3	129.2
18 Public Utilities	55.9	49.5	47.2	48.9
3 Radio (1927 Cl.—100	25.4	21.6	21.2	22.0
7 Railroad Equipment	51.8	45.7	45.1	48.1
17 Railroads	17.5	15.2	14.7	15.5
2 Shipbuilding	88.7	81.1	78.5c	79.4
3 Soft Drinks	337.1F	307.5	299.0	310.8
12 Steel & Iron	76.6	70.4	69.0	71.0
2 Sugar	44.1	40.4	39.8	40.4
2 Sulphur	193.8	187.7	183.4	180.7
3 Telephone & Telegraph	109.0	107.0	101.7	105.3
3 Textiles	56.7C	50.7	50.0	51.5
3 Tires & Rubber	27.7F	24.7	24.2	25.2
4 Tobacco	65.8	62.8	62.1	62.2
2 Variety Stores	233.8C	228.0	225.8	231.7
20 Unclassified (1942 Cl.—100)	175.4	161.3	158.5	164.9

New HIGH since: C—1940; F—1937. c—New LOW since 1940.

Trend of Commodities

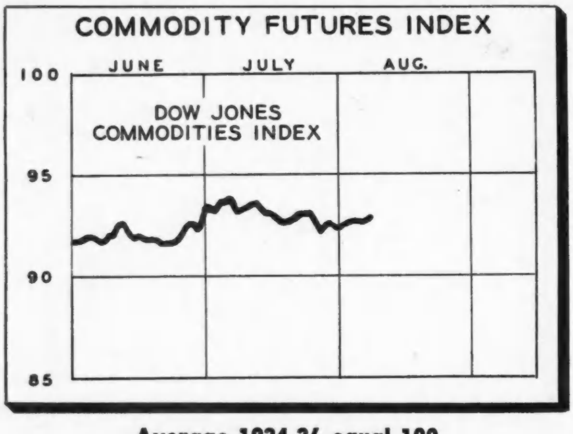
Commodities moved irregularly upward during the past fortnight under a prevailing belief that demand in most instances will exceed supply for at least several years, regardless of the war's duration. Agriculture Department predicts that food production this year will top the 1942 record total by 4% and the 1935-9 average by 31%—a drop in food crops being more than offset by an indicated 10% upturn in livestock marketings. Of 1943 food production, civilians will get 75%, the armed forces 13%, lend-lease 10% and U. S. possessions 2%. Lend-lease shipments (mostly to the United Kingdom and Russia) in the first four months of the current year took 7.6% of our total meat supply, and more than 10% of our lamb, mutton and pork; condensed, evaporated and skim milk; edible fats and oils; dried eggs; dried peas, beans and fruit; and canned and frozen fish. The biggest problem is how to distribute the reduced supply among civilians evenly. Farmers naturally take the first helping, then their neighbors and next the folk in nearby towns. Big cities in the east are hardest hit; though even here, the restaurants, offering higher prices, are generally well supplied. Partly in the interest of more even distribution and partly as a means of holding prices down, the Government is planning to buy foodstuffs direct from the farms and resell to trade outlets at a loss.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

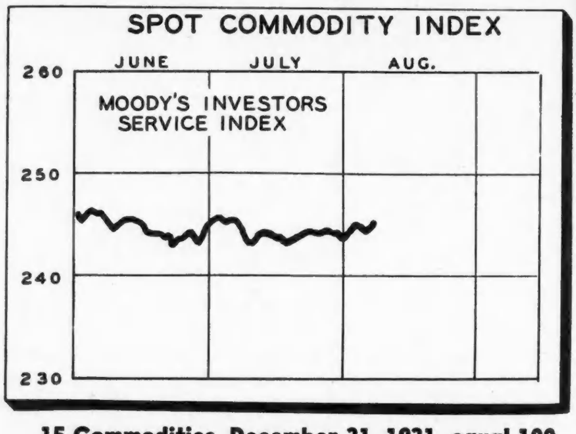
Spot Market Prices—August, 1939, equals 100

	Date Aug. 7	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	177.1	176.4	176.2	176.4	174.5	167.0	156.9
11 Import Commodities	167.6	167.7	167.7	167.8	165.3	163.1	157.5
17 Domestic Commodities	183.5	182.2	182.0	182.2	180.8	169.5	156.6
7 Domestic Agricultural	211.0	209.4	211.0	208.0	202.2	183.0	163.9
12 Foodstuffs	200.8	199.7	200.2	200.3	199.2	186.6	169.2
16 Raw Industrials	161.0	160.5	160.0	159.9	157.9	153.5	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	93.66	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

Copyright by Moody's Investor Service

	1943	1942	1941	1940	1939	1938	1937
High	249.8	239.2	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

Here's one Nazi broadcast that's the Gospel Truth!

U. S. TANK IS BEST, SAY NAZI EXPERTS

Germany Will Doubtless Copy Gyroscopic Feature of General Sherman Tank, Berlin Radio Declares

By The Associated Pres

A special new German institute for testing captured tanks has adjudged the American "General Sherman" the best type the Allies have turned out, the Berlin radio said yesterday, adding that the Nazis "doubtless" would copy its construction—particularly the gyroscopic gun-mount, which they consider its outstanding feature.

"Doubtless" Best Type

"According to the findings of the Institute," said the broadcast, recorded by the Associated Press, "the 'General Sherman' tank is doubtless the best type the allied armament industry has yet produced.

"A special innovation on this type tank, which by a gyroscopic system prevents the gun from being affected by the jolting of the tank when traveling on rough grounds, greatly interested the German experts. They believe this to be the first attempt at borrowing from the construction of warships for the construction of arms for warfare on land, and doubtless it will be copied soon."

When the German radio paid glowing tribute to the General Sherman tank—for once it was telling the truth.

You see, tank battles used to be stop-and-go affairs, because a tank's heavy cannon could be aimed accurately *only when the tank was at a complete standstill.*

That was bad—because every stop naturally made the tank a juicy target for the enemy.

Then the Army Ordnance Department called on American industry for the solution of this problem. So the men of Westinghouse went into a huddle. And out of it came what has been called one of the greatest military developments of this War—a tank gun stabilizer that permits *incredibly accurate fire while the tank is charging ahead at full speed over rough ground!*

And then, to button up the job, Westinghouse went into production on these gun stabilizers so fast and so thoroughly that almost before you could say "El Alamein," they were being produced in sufficient quantity to equip every American tank!

No wonder the Germans thought well of the General Sherman. And no wonder they considered its gun stabilizer its outstanding feature. For this one device has revolutionized the whole combat technique of tank fighting!

For us, tank battles are no longer stop-and-go affairs, with every stop offering the enemy a "sitting pigeon." American tanks are now more than 500% deadlier than ever before.

And the Westinghouse Research Laboratories, which developed the device—the Westinghouse engineers, who perfected it—and the men and women of Westinghouse who make it in great numbers—are proud as Punch.

Westinghouse Electric & Manufacturing Company, Pittsburgh, Penn.

» » **Westinghouse** « «

PLANTS IN 25 CITIES . . . OFFICES EVERYWHERE

Future of the American Dollar

(*Continued from page* 512)

the interim period between peace and revival of full civilian production may be bridged and consumer dollars be confronted with an adequate supply of goods.

If the situation, then, were to be stabilized at around present levels, there is no valid reason why the gold dollar, as known before Pearl Harbor, should not be retained unimpaired. Proportionate to the production of our country, it is not as much impaired as was the Civil War dollar. In 1863, the United States 6 per cent bonds stood at 63 in 39 cent dollars, on the night of Gettysburg. Today, United States 2's are at par, and the dollar is reviving into the higher 60's even in black outside markets. And as the mark nosedives in Zurich and Amgot determines internal values for liras and francs, and Sterling balances in London are painfully doled out, it will rise above 100 cents in foreign exchange. Relative to the other currencies, even the temporarily touted South Americans, it is better than ever. Relative to its internal purchasing power, it has met no difficulties whatever. Prices of goods are little higher than in 1926, and even allowing for black market and quality adjustments, they are still a third below 1920. Compared to the impairment of purchasing power in the Revolutionary, Civil and World Wars (our three severest strains), it has not yet attained even impressive dimensions. Hence, the length of the war and the cost of reconstruction financing (excluding productive government investments) is the real issue for those who are not certain we can keep our dollar good. After all *per capita* wealth when the Civil War broke out was $500; today, it is nearer 3,000. In proportion to present wealth, as a total, it was about 4%, or less. In the ability to recoup lags in production, it was not even 1% of our present capacity.

A fair assumption might be that a two years war would compel an additional debt service of over 2.5 billions, if fought through into 1945 (further pessimistic calculations are too far-fetched for present analysis). But, should the tendency to a reduction of private debt charges continue, and overall productivity gain, and the ratio of war bonds and taxes to private income increase, the position of the dollar would still not be materially injured. The difficulties of deflation, by reason of maintaining its integrity, would simply be more marked in intensity and duration.

In this connection, it should be recalled that ultimately, the cost of previous wars was absorbed by an increase in productivity. Where that did not take place, as in Russia in 1917-19, or in Germany, 1919-21, the resulting impoverishment diminished the flow of new income to take care of the debt service. But where, as with Britain from 1689 to 1939, the tendency was upwards after every war, or with the United States where it has always been dramatically upwards then a war is merely a temporary increase of civilian consumption drafts on previous inventories. That draft would have taken place anyway, only that in a war, the backlog is diminished.

That is the secret of national recoveries after war. The productive apparatus being intact, the skill and savings abundant, the net debt service costs, internally, would have to go far indeed to impeach the purchasing power of the dollar on a longterm basis. What has confused counsel is the romantic appearance of the figures "hundreds of billions" in computing war expense. But these are no more relevant, in ratio to renewable productive capacity, than five billion was to the stagecoach generation in Britain staggered by the cost of defeating Napoleon.

There are, however, certain important changes between this and every previous American war. In the Civil War, we collected immense revenues from wheat and other raw material exports; now we are giving them away. We are a creditor nation now, even more than in 1918, but we are indebted for large liquid debits and we are creditors for slow-moving assets, primarily. We may, however, offset the liquid withdrawals of foreigners either by compensatory regulation, equating their liquid claims and impounding them until settlements are made on our less quickly realizable demands, or, if social disorders appear in Europe, the United States may again be a haven for foreign investments, to take the place of Sweden and Switzerland and even Portugal.

The real query concerning the future of the dollar concerns the impact of post-war expenditures rather than war costs. In every previous war, we went back to *laissez-faire,* to the free play of supply and demand, and government expense went down immediately. In view of the record of the Federal government since 1930, when Hoover initiated deficit financing and Roosevelt intensified it, it seems that decit financing must still increase after the war. But, allowing for refundings and replacements, while the Federal Debt rose from 16 to 34 billions in 1930-39, the service on it did not rise by more than a sixth. A large part of that borrowing was for naval and military needs, as well as for social services and reflation. Hence, pure reconstruction borrowing can never attain a tithe of war borrowings. If part of it is productive (even if it does not quite earn its service) then the net effect on the stimulated national income will be small indeed.

Here too, unless the government runs riot for a decade, strewing useless subsidies and undermining fiscal confidence, mere reconstruction expenses could not undermine the dollar. The long revolutions of mankind have kept the dollar fairly static; it still buys 70 per cent in commodities of what it bought in 1860 and incredibly more in human convenience. It has lived through two catastrophic major wars and one smaller one; through five seismic panics. It is now more than halfway through a staggering new war, and if it still compares with the 1860 dollar, it is a hardy possession—rightly cherished.

Six Strategic Habit Stocks

(*Continued from page* 531)

operating profit, before taxes, from 1941 to 1942 of over 34%, and its consequent steep rise since, is taken into account, it is possible that the company is in a new earnings area, exceeding those of its moderate growth period. As net quick assets are about $10 per share, the company is financially in good shape to advance.

Life-Savers paid $2.40 in 1941 and $2.00 in 1942. Earnings of $3.00 and $2.71 in those years together with the strong capital position warranted a higher dividend. Earnings should exceed $3.50 in 1943 indicating a $2.50 basis, following precedent ratios. At recent prices of 38, and assuming a $2.50 basis, the yield would be 6.57%. This dividend, over a long period, seems likely in view of the company's growth tendency. As such, it is a solid long-term investment. It should be recalled that its minimum earnings since 1929 were as good as $2.15 a share.

William Wrigley Jr. Co.

The largest producer of chewing gum (60% of the world total) has one of the most impressively steady earning histories of any public corporation. High earnings of $5.90 and low of $3.26 mark its extreme limits, the median earnings are about $4.15, and with post-war taxation prospects, nearer $4.50. Dividends have been liberal, $3.89 per annum in 1936-1942 as against $4.06 average earnings. The company derives about 7% of its income from the British Empire; hence peace will aid. Working capital of $18 per share is adequate for any prospective needs. In view of past earnings policy, a dividend basis of $3.25 is forecast, due to recent gains. At the recent price of 67½, the apparent yield is a trifle under 5% but if the seven year average of $3.89 is taken as a basis (and with any tax liberalization, this seems reasonable) then the basis would be 5.76%. Considering the long earnings history and progress of the company, and the peace of mind that accompanies its ownership, it still appears fairly priced on an investor basis.

National Distillers

National Distillers, although, of course, a "habit stock," is, in wartime, an industrial alcohol producer, whereas the other "habit" companies have basically stuck to their last Its only present connection with its peace production is in the liquidation of reserve stocks and the hope that it may soon resume beverage production. It differs from the other "habit" stocks, also, in that although they may be the verbal targets of hygienists and moralists, the alcohol trade is subject to demands for its legal annihilation. However, the inability of the "drys" to obtain any important prohibition legislation during this war, indicates a long-term continuity of alcohol manufacture for beverage purposes. Hence, the investor in National Distillers can effectively take the same attitude towards its future operations as towards that of other "habit" stocks.

Since prohibition, National Distillers has been conservatively managed, with a view to steady growth, financial strengthening, careful dividend policy, and high investment status. This was considered difficult of attainment by an alcohol beverage stock, but it has been accomplished. When the company produced for civilian use only, its average earnings for 1936-1941 inclusive, were $3.61, the range of earnings not exceeding 10%. Except for two initially heavy disbursements, the dividend rate was $2, and that should be the basis of future expectations. The company's brands are assured high standing in the trade, "Old Overholt," "Mount Vernon," "Old Grand Dad," "Old Taylor" having quality standing in rye and Bourbon. Its cheaper whiskies like "Eagle" are in great demand. In a highly competitive field, where advertising and merchandising are decisive, it shows steadiness and growth. Cash position is good. The Debentures outstanding should be reduced in the next few years. At 30⅝, the yield of close to 6.60%, seems secure for many years to come, despite some slight costs for the shift from war to peace production and possible lag in sales in the transition. Increased beverage taxation seems scarcely conceivable without producing such illicit manufacture as would defeat the Treasury.

Coca-Cola

This soft-drink producer is the most successful "habit" company known to stock exchange history. The rewards of its earlier investors were fabulous. Competition from young and lively companies such as Pepsi-Cola may reduce its proportion of the trade and limit some extra profitability but still leaves it a business whose earnings will expand. At the very worst, in 1932-33, it earned $2.19, and, since 1936, a seven years earnings average is $6.01. This is twice the pro-rated per share earning power at the peak of the twenties. The company doubled in depression. The recent restoration of the sugar quota from 70% to 80% has greatly eased production problems for the duration. When war taxation diminishes, even slightly, it will be seen that Coca-Cola's net income is on a permanently higher basis. The conservatism of Coca-Cola, as to bottle size and direct fountain sales shows that they are confident of maximum earnings on the present basis.

Only taxation has reduced its tendency to expanding net in war. An approximate $6 basis, for the long term, seems almost as secure as the earnings of a quality bond. Hence, its yield should be compared with that of a good industrial obligation, rather than valued on a common stock basis. It has reduced its dividend basis to $4 for the duration, but a $5 long-term basis is indicated. On the latter long-term proven dividend capacity, the yield at present quotation, 115, would be 4.34%. The stock is thus somewhat overpriced, but should it reach 105, as it might easily do, in a moment of market reaction, for those wishing a secure income, it still remains a good item in their portfolio.

Changing Status of the Metals

(*Continued from page 529*)

should benefit from the widespread and very satisfactory substitution of molybdenum for tungsten in many heavy-duty steel alloys. A stable price policy and extensive research should increase demand greatly and a better than average performance may be expected in widening this metal's field of use under normal conditions. About 90% of the world production of molybdenum originates in the United States with the Climax concern the largest supplier. The outlook for Vanadium Corp., while promising, is less well defined. The high price and relatively limited supply of the metal points to somewhat slower progress, characteristic of a specialty metal which does not lend itself to mass-production.

From a long range market standpoint, non-ferrous metal stocks can be divided into three classes, according to future prospects. The first class whose post-war outlook while uncertain, is by no means as unpromising as frequently reflected by market opinion, embraces the leading coppers, lead and zinc producers. Among them, Anaconda, Kennecott, Phelps Dodge, St. Joseph Lead and New Jersey Zinc stand out for good yields, strong financial position and large ore reserves, affording a hedge against inflation. Their long term earnings record has been favorable, their dividend record stable and disbursements often generous. There is every reason to assume that these characteristics, over the longer term, will continue. While secular growth prospects are in doubt, partly by reason of declining ore reserves and partly due to competitive influences, their over-all record for the forseeable future should be satisfactory.

The second class embraces growth stocks, such as Climax Molybdenum, Vanadium Corporation, International Nickel and others producing alloy metals. They should benefit from the secular growth trend in alloys and have distinct speculative merit.

The third class, producers of aluminum and magnesium, are likewise of the growth variety; however, their outlook is obscured by the enormous excess capacity created to meet the ballooning war demands for these metals and the question of its eventual disposition by the Government. They lack appeal, pending their post-war deflation to bring capacity in line with future demand.

Basically, of course, all non-ferrous equities are speculative as ore reserves are not inexhaustible and operating returns will always be subject to industrial cycles. At the present juncture, the latter factor is unquestionably of more immediate importance. Granted a sizeable post-war business boom, non-ferrous metals by virtue of their basic importance to industry should continue in good demand though requirements will fall far short of the enormous war-time consumption rate. Their post-war fortune will be closely linked to the recovery potential of industry as a whole, admittedly considerable. It remains to be seen at what prices the market will have adequately discounted investor doubts as to the status of most non-ferrous metals in the post-war period of adjustment.

Not the least of these doubts is centering on the question of taxation, the most important determinant of earnings for base metal companies. Mining companies generally have favorable tax positions due to substantial invested capital and the privilege of charging depletion against taxable income. Also, important revenues from foreign properties often are not subject to the excess profits tax. Therefore, even though the EPT rates may be high, the income exempt from this levy though subject to a moderate normal and surtax may still afford satisfactory earnings even when volume declines. Conceivably, however, these tax privileges are not permanent and after the war may be wholly or partly withdrawn.

What's New?

Keeping Up With The Industrial Revolution

BY JAMES P. WOOLLEY

THE Helicopter Boom — Rotary wing aircraft (helicopters and autogiros) have caught the imagination of mny a hard-headed business man, as well as of the public. Numerous bus lines, railroads and air transport companies are figuring on fitting helicopters into their operations for short-haul work both as feeders and otherwise. On the production end the companies which have let their helicopter ambitions become known are no doubt exceeded several fold by those whose plans are secret. United Aircraft's Vought-Sikorsky division has a head start. In alliance with William B. Stout, famous designer, Consolidated-Vultee has cooking a "Helicab" with novel features, as well as two small "flying automobiles": planes which, with wings folded or removed, can zip along the highways. Firestone Aircraft Company (Firestone Tire) has just acquired G. & A. Aircraft, Inc., an outgrowth of the original Pitcairn Autogiro Company. Shipbuilder Henry Kaiser is working on helicopters with the technical aid of Prof. Otto Koppen of M. I. T.. Preliminary plans of various others will soon be in the open.

GAS TURBINES—The search for more efficient engines of all types is never-ending. In power per pound of weight, or per unit of fuel consumed, the last word is far from having been seen in automobile or aircraft motors, or Diesels or steam engines. Probably one of the most important developments of the future, as predicted by M. W. Smith, vice president in charge of engineering for Westinghouse Electric, will be use of gas turbines as prime movers in aircraft and locomotives, instead of being used, as at present, merely as "boosters" in supercharging gasoline-propelled aircraft engines in the "thin" atmosphere encountered in high altitude flying. The principle of the gas turbine has long been known. Its practical application as a prime mover has been brought nearer by great progress in metal alloys and intensive experimentation, but the problems involved have not been fully mastered. In time the ideal aircraft power system may well be a gas turbine linked to the propellers with an electric drive. Tests with steam turbine geared directly to the drivers of locomotive wheels indicate a saving up to 25 per cent in pounds of steam per horsepower-hour, as compared with the conventional steam reciprocating locomotive.

SYNTHETIC GASOLINE — Three United States Senators recently made a test run through the streets of Pittsburgh in an automobile powered by gasoline derived from coal. The Germans long have been doing it. We can do it when our crude oil reserves run out—but that appears to be the better part of a generation ahead. The coal hydrogenation process is expensive. After exhaustion of oil reserves, we could get along for many years on gasoline extracted from oil shale: more expensive than present gasoline but cheaper than conversion of coal. This puts the "crisis" for motorists, truckers and bus lines so far ahead that we might better do our worrying about lots of other things.

Length of Post-War Boom

(*Continued from page 506*)

only be very substantial but solidly assured for as much as perhaps four or five years.

An almost equally long period of prosperity is indicated in the railroad equipment field. Much of the existing equipment is worn out or obsolete and must be progressively replaced if a post-war comeback is to be attempted by the carriers. The mounting need for new equipment falls into five groups: (1) track rail of which heavy replacements are required; (2) freight cars, probably the biggest replacement job of all. Experts estimate that in addition to a normal peace-time replacement of 80,000 cars annually, the railroads will need 500,000 new cars to make up for worn-out rolling stock. (3) Passenger coaches of which more than half now in use are over 25 years old. It is estimated that 700 new coaches will have to be added annually for several years. (4) Locomotives, a field which will include a substantial changeover from steam to diesel power. Estimates of prospective needs vary widely but, on an average, as many as 2,000 new locomotives may be required over a period of time. Normal capacity of the locomotive industry is about 1,200 locomotives. (5) Airbrake equipment. Between 1 and 1.2 million cars are not yet equipped with the modern AB type brake, the installation of which has been made compulsory by the Government.

The big question, of course, is: will the railroads have the funds needed for such a huge replacement program? While maintenance reserves of most railroads have risen considerably as a result of high war-time earnings, it will primarily be a matter of Government tax policy whether they will be financially able to assume such expenses. The railroad equipment industry, however, has other irons in the fire. It should benefit importantly from the prospective post-war modernization of railroads in many parts of the

world. With the destruction of many locomotive plants in Europe, the locomotive builders particularly may obtain large orders from that direction.

Prospects of the office equipment industry, while uncertain, should be fairly good. Accumulated demand is admittedly large but current production is fairly substantial though restricted for use by Government and war plants. The end of the war will probably witness the dumping of a considerable volume of good quality used machinery and equipment and eat heavily into civilian demand backlogs. On the other hand, the export outlook is held excellent and should go far towards balancing this factor. On the whole, however, the secular growth in demand is not expected to continue until the second-hand supply of equipment is digested. Exceptions perhaps are the typewriter companies, notably those making a large proportion of portable typewriters purely for private use. Here, deferred demand may turn out to be heavy.

Post-war demand for tires is expected to absorb virtually the industry's full capacity for a period of three years, depending in part on new car output. Both replacement demand and the call for original equipment will be very heavy. Additionally, a good backlog is indicated for mechanical rubber goods and tires for agricultural machinery, increasingly favored over steel tires. The total backlog may well exceed substantially the three-year period and point not only to heavy but exceptionally profitable business since competition will be considerably lessened during the expected initial buying spree.

There are a number of other capital goods industries in line for shorter or longer periods of prosperity. Makers of mining supplies, oil well drilling equipment, printing and textile machinery face several years of good business since replacement or modernization of existing equipment was practically impossible due to wartime restrictions. Two years of good business are indicated, as a minimum.

Additional sizable backlogs exist in the furniture and rug industries, and in various branches of household furnishings and equipment. They should permit a high rate of operations for some two years, according to trade estimates.

If the foregoing projection of post-war potentialities falls below the brilliant expectations often held out in past rapturous descriptions of the shape of things to come, the reason lies primarily in the assumption of a much earlier peace than might have been justified in hoping for not so long ago. If this assumption proves correct, it is obvious that deferred demand will be not nearly as heavy as otherwise.

However, the picture presented in the foregoing is still oblique. The prospect is that the war will not end suddenly on all fronts. While the European war may conceivably come to an end late this year, or early next year, the war in the Far East may still drag on for a considerable period. Hence demobilization of our fighting forces, and reconversion of industry, is likely to be a gradual process, with possibly years and certainly months as the milestones on the road to full peace. Even today, there is accumulating evidence of the approach of a dual economy—that we shall not have to wait until the fighting is all over to beat some of our swords into plowshares. If peace in Europe comes soon, this trend will rapidly intensify because it will be no longer necessary to use our all-out productive capacity for nothing but war products. Instead of facing the specter of an eventual exhausted civilian economy, we shall be able to replenish it before long and a good many consumer goods, now severely curtailed, may again be in sight long before "taps" is sounded in the Far Eastern theatre of war.

From an economic point of view, such a development would be eminently desirable. While it would almost certainly explode the possibility of a resounding business boom, except in very few industries, it would guarantee a well sustained period not of boom conditions but of sound and real good business. By the same token, it would tend to take the edge off any post-boom depression, so frequently encountered in the past after prolonged periods of high prosperity. In short, it would act as a stabilizing factor all around. The need for sharply higher taxes to absorb excess purchasing power should wane and many plants should be able to charge some of their reconversion costs to current operations. It would greatly aid the reemployment problem and thereby conserve a good deal of the public buying power which otherwise might disappear under the stress of unemployment.

Under such conditions, a projection of post-war prosperity, in character and duration, is hardly feasible at this time since many of the determining factors are difficult to foresee. It can be said, however, that it would probably exceed, in years of fair prosperity, the duration of boom conditions envisioned in the event of a sudden end of the war. At the present writing, prospects distinctly favor the former alternative.

From a strictly market standpoint, it may be said that the market appears to have quite well discounted this possibility. Before the market advance was interrupted, it discounted primarily the peace potentialities as they appeared then. With its reversal, after Mussolini's fall, it began to discount the possibility of early peace in Europe and with it the prospect of a war-peace economy, as outlined above. In other words, the market has moderated its views of the post-war boom in favor of a more evenly balanced recovery process.

Outlook for Merchandising Stocks

(*Continued from page* 524)

the 1943 level of sales has been a half over 1940, and yet, despite this, inventories, in the early part of 1943 were more than 50% above pre-European War. That is, inventory in the spring of 1943, bore the same ratio to sales that it did before the curve of demand rose to its present height.

It was predicted when the European War broke out that the absence of the large supply of this type of merchandise from the cheap labor countries like Czechoslovakia and Japan would be felt at once and injure inventories. But the companies have found substitutes perfectly satisfactory to their clients, and for a time, the variety of merchandise offered was almost equal to the former range, certain items compensating for the near disappearance of others.

The cost of help, though, has risen greatly, as the type of employe in this quickly learned counter business, is just the floating type which has been recruited into war work, with no special skill but with a certain readiness. These additional costs and the fact that inventory is at last running into real difficulties of replacement, together with increasing costs, spell the end of an excessive market spread and must mean slightly lower earnings. Owing to their high earnings in 1942, though a part of the recession will be at the cost of taxes and thus will not reduce the net more than nominally. It is rather the implications of these factors, continued well into 1944, that may cause a certain hesitation concerning these shares. Their longterm future admits of no doubt.

Standard earners should be preferred to those chains which have come up very fast due to the location of their stores in defense areas with a new customer grouping. The lesson of 1919 shows that such earnings gains are not held relatively to the stores with complete national coverage, once the temporary war caused change in distribution is over.

The recent order of the O.P.A. controlling restaurant prices, and adjusting their levels (including alcoholic drinks) to the prices prevailing three months ago, will cause some slight adjustments to be made in menus. It will not be possible to evade the price fixing law by making portions much smaller, for quantity adjustment has already been made, due to shortages, to a point at which consumer resistance would manifest itself if it were carried still further. The variations are more likely to be in trimmings, sauces and side-dishes, which arrangements are extremely hard to supervise. But the spread between costs and prices received, under the new regulations is capable of less elasticity than before, so that we have revised our earnings estimate slightly downward, although the full year's operations should still show a net gain over 1942.

However, the habit of eating out, once initiated, is not easily lost. After the last war, the restaurant habit, despite reduction in employment and partial return of women to the home, kept most of its wartime gains and it appears likely to do so this time. Where finances are sound and the restaurant chain enjoys good leases, and is not encumbered with unproductive real estate in locations that have passed their prime, these chains are at the beginning of a good cycle of recovery.

No American chain has yet reached the amazing possibilities of the Lyons shops in England, or even their second and third chains, ABC and Express Dairy, but it is possible that here, as in Britain, restaurants may become prime industrials, ranking with the highest. Their ability to go through a long period of experimental organization, overcoming losses due to waste and corruption, shows that they are now entering a second period of financial maturity. These are offsets to temporary small diminutions in earning power that may (but probably will not) manifest themselves in 1944.

Management is the first criterion for determining future earning power. Fixed investment in retailing is small compared to turnover. Far-sighted directorates can convert minor assets companies into good earners, and many formerly prosperous chains have seen poorer fortunes under the incompetent or static management, Federated Department Stores, H. L. Green, May Department Stores, Montgomery Ward and Sears Roebuck (in these latter cases, the already high market valuation of their management and peace prospects must be taken into consideration), J. J. Newberry, J. C. Penny, Safeway Stores, are typical of companies whose peace earning power should exceed that of the last two years by good margins. Nevertheless, the fact remains that for the balance of 1943, apart from restaurant chains, no form of retailing is likely to show other than slightly reduced earnings. Dividends in every important company, however, should remain unaffected for the present, but increases, even in the best companies, are excluded. Thus, yield and longterm earnings, and not immediate prospects, are basic considerations for this group.

Coming Shifts in Civilian Economy

(*Continued from page 515*)

ductively invested. It is estimated that the national income this year will approximate $150,000,000,000, and that the amount saved may approach $40,000,000,000. If we had such an income in peacetime, a sizable proportion of it—perhaps at least $25,000,000,000—would not be currently spent and savings probably would be much in excess of what could find outlet in job-creating private investments. Hence that margin would be quite meaningless in its relation to prevailing business activity and the level of employment. It would be idle money. Money that does not "work" serves no creative economic function whatever, however nice it is for the individual to have it available for the rainy day.

There are a good many millions of persons in non-war occupations whose income gains—if any—during the war period are smaller than the benefit they will receive after the war via a reduction of living costs and personal taxation. Hence the deflation of income of war workers and farmers will not be entirely a net loss to the economy, but will be importantly offset by recovery of purchasing power by many millions of others who presently constitute The Forgotten People. Thousands of business concerns, not engaged in war work, will find a net benefit, rather than any loss, is returning to more normal operating-cost conditions.

There is a present basis for reasonable forecast of at least two to three years of very active post-war business on the basis of the following considerations: (1) resumption of building; (2) accumulated demand for consumers' durable goods and for capital goods of peace-production types; (3) export demands for foreign relief and rehabilitation, however financed; (4) replenishment of depleted business inventories. Only after the gap is filled will the really long-pull economic prospect present a question—the answer to which will depend on our future wit and wisdom, and can not be offered here. In another special article in this issue the industries favorably affected by accumulated and accumulating backlogs of deferred demand are analyzed individually in terms of probable duration of boom production for each.

Here, briefly summarized, are some of the more important changes that lie ahead which consumers can count on and investors must allow for:

(1) After a possible, but by no means certain, temporary period of controlled and limited price inflation, prices will go down due to much increased competition for consumer markets and the application of radically improved manufacturing techniques mastered in the war effort. The consumer will again be the Fair-haired Boy, his favor actively and graciously courted by all sellers. Goods will not only be cheaper but of improved quality.

(2) The majority of raw materials and various semi-finished products, such as steel, will be in at least sufficiently large supply to make for a more competitive situation than existed in the peace years prior to the war. Capacity for making steel will have been substantially enlarged and producing capacity for most non-ferrous metals probably will exceed market needs. Capacity in aluminum, magnesium, plastics, plywood and other "synthetics" will have been so hugely increased as to make both for a status of competitive abundance in the aggregate of industrial materials and to give fabricators the strategic advantage of a much widened range of choice. On the whole, for investment purposes, makers of finished goods—especially consumer goods—will be in a stronger and more flexible position than producers of raw materials, with the exception of oil.

(3) Though technical innovations in styles and types of products will not change our civilian way of life nearly as greatly as some of today's more romantic advertising seems to suggest, nevertheless there are important and radical innovations in sight. Some of the more significant are in the field of electronics; television; much greater use of improved air-conditioning; radically improved building materials and household apparatus, plus substantially increased use of prefabricated building techniques; large expansion in air transport, with a growing place for helicopters in short-haul common carrier work and a smaller, though eventually substantial, place in private flying; re-engineered automobiles with motors built for high octane gasolines, radically increasing present mileage obtainable per gallon of fuel; widely-growing use of perfected methods and devices for fresh-food preservation which, together with improved highway, railroad and air transport and spreading rural electrification, will sharply narrow the former convenience margin between rural and urban living; tires that will last as long as the car, probably made at least partly of synthetics; resumed and intensified growth of commuter suburbs, at expense of realty values and trade in big cities; greater use of economical Diesel engines and the newly perfected gas turbine in both transport and stationary power work; moisture-proof textile fabrics; and a host of lesser developments too numerous for listing here.

(4) The previous trend toward diversification of product lines or activities by corporations will be radically intensified—so much so that it will bear close watching by investors both as regards the beneficent potential and, doubtless in some cases, new threats to established trademarks.

Finally, and closely affecting our future civilian economy, there are important developments shaping up in our relations with the rest of the world in the fields of international transport, trade and finance. To this important and practical subject, a special article will be devoted in our next issue.

Answers to Inquiries

(*Continued from page* 534)

mobile driving and the increase in traffic due to increase in employment in New York City, we think advantage should be taken of any rally to liquidate this bond and reinvest proceeds in a bond carrying a better investment rating. For instance, the Cleveland, Cincinnati, Chicago & St. Louis Railroad — C.W. & M.D. 1st mortgage 4's of 1991 are rated B 1 and are guaranteed as to interest and principal by the New York Central Railroad. These bonds are selling around 57, a point and a half below the Hudson & Manhattan issue and the prospects of this railroad appears bright for the duration. You would at least be securing a bond with a higher investment rating and with a guarantee of the New York Central Railroad. The latter's earnings have improved sufficiently to warrant resumption of dividends on its common stock.

Baltimore & Ohio 6's, 1995

I am a subscriber to The Magazine of Wall Street. For some time I have been considering selling a one thousand dollar Baltimore & Ohio 6% bond of 1995 series C. I bought it in 1937 for 99. It is now worth about 43. If the government is liable to take over the railroads, I wonder if it would be wise to sell now, or hold the bond still longer?—M. C. S., Independence, Iowa

The Baltimore & Ohio Railroad, Series C, 6% bonds of 1995, carry a low investment rating of C 1 plus and must be considered as a very speculative issue. The company's earnings have been showing a good improvement in the last year and interest charges were earned 2.45 times in 1942 as compared with 1.67 times in 1941, and 1.18 times in 1940. For 1938 and 1939, said charges were not fully covered. This bond paid $48.00 per $1,000 bond representing contingent interest, on May 1st, 1943. The bonds sold as high as 57 this year and as low as 35¾, last 43¼.

This company's cash position has improved to such an extent that it has been asking tenders of various bond issues. We see no reason to disturb this bond at the present market price.

Lake Shore Mines

I have become somewhat interested in Gold stocks and Lake Shore Mines is one that I favor. There is one point of uncertainty. The stock has had excellent earnings, but is now selling at a far smaller percentage of its high within the last twelve years than any other stock of which I know, in the same class, gold mining. What is puzzling me is why this unequal showing? Many gold mines in the United States are working short handed and turning out a smaller tonnage and I understand that the locality where are located the Lake Shore holdings is even worse off for labor, but even this would not seem to account for the wide difference in the ratings given the stocks in the market. Can you say whether in recent years the Lake Shore has been showing up worse as to its reserves than appears in the rating books? Or is there some other reason known why, in comparison with past appraisals, the market rates the Lake Shore so low in comparison with other mines not only in the U. S. but also in Canada? What would be your first choice in Gold mines for price enhancement, more than for present income?—H. G., Decatur, Ill.

Lake Shore Mines, Ltd., was incorporated in Ontario, Canada, in 1914, to acquire certain mining claims from Harry Oakes, for the consideration of 1,000,000 shares of stock. The company is one of the leading Canadian gold producers and operations include the mining of ore and the reduction of the ore to gold bullion. The company's interests have been confined to its main property and it has not undertaken the discovery or development of different prospects. It has substantial investment in Kirkland-Hudson Bay Gold Mines, Ltd., which own mining claims at Kirkland Lake and whose property adjoins that of the company is being developed to the company's workings.

The company has no funded debt and 2,000,000 shares of common stock of the par value of $1 per share outstanding.

The company earned $1.14 in 1942, as compared with $1.82 in 1941. In the pre-war years of 1936 to 1939, inclusive, the highest this company earned was $4.84 per share and the lowest was $3.54 per share. It paid $1.10 in dividends in 1942 and has had a price range this year of: high, 16¼; low, 10¼; last 13. It sold as low 5 in 1942, and at the high this year showed an advance of over 200 per cent.

Earnings before depletion for the fiscal year ending June 30th, 1943, probably will not be much over $1. per share in Canadian funds and less favorable results are indicated early in the coming fiscal year. A continuation of the present 20 cent quarterly dividend is not assured beyond the immediate term, since diversion of miners to repair rockbursts has temporarily reduced millings to 800 tons daily. It is stated that better grade ore has permitted higher bullion production in the past year but shortage of labor indicates that development work on such ore may be checked. The Kirkland Lake deal has been losing miners to agriculture, war plants and the armed services and no reversal in the trend is indicated in the nearby future. In our opinion, the stock is not as attractive as Homestake Mining or Dome Mines at current market levels.

If you will compare the price range of Lake Shore Mines with Dome Mines and Homestake Mines, you will find that Lake Shore Mines appreciated in market price approximately the same as the other two stocks mentioned.

For Profit and Income

(*Continued from page* 533)

up Simmons Bed cheap, and the less pessimistic may recall that the defeat of Japan means that we will sleep in beds and not on straw mats. As for the drapery stocks and the upholstering companies, like Collins and Aikman, they ought to rise in proportion as war stocks decline. Collins and Aikman should benefit, not merely by the revival of private automobile production, for which cars they provide textiles, but by housing revival as well. A joint beneficiary of consumer's durable goods revival and the ordinary embellishment of homes should be watched by investors planning a longterm program.

Second Quarter Reports

(*Continued from page 517*)

under last year's with per share earnings in both periods amounting to 11c. Higher costs and taxes were responsible for this indifferent showing, the former rising 62%, the latter 55%, clearly illustrating the restrictive effect of both these factors, prohibiting, despite rising volume, any worthwhile gain in net after a certain point is passed. Numerous examples could be cited to that effect.

Due to the privileged tax treatment accorded to mining companies, Phelps Dodge, leading domestic copper producer, fared better, relatively, than most industrial companies. Sales during the first half year rose 30% to $78.95 millions from $60.30 millions last year, but taxes advanced only modestly from $9.2 millions to $10.3 millions, leaving net profit of $6.77 millions compared with $5.58 millions after setting aside one million as a reserve for renegotiation and other contingencies. Without considering the latter item, net earnings actually rose some 40% compared with a 30% increase in sales. Contrasting this with the results registered by RCA and General Motors, the effect of varying tax treatment is forcefully brought to attention.

Pre-tax income of Allis- Chalmers for the second quarter came to $8.37 millions against $7.48 millions last year, but net per share more than doubled, amounting to $1.16 against 50c, reflecting the leverage factor arising from the large preferred issue ahead of the common. Despite contract cancellations, the company still is heavily engaged in war work; unfilled orders at the end of June amounted to $281 millions compared with $184 millions at the end of the first quarter. Not all of this backlog constitutes war orders, of course, which in future months may tend to decline in relation to normal business, reflecting relaxation of restrictions on the manufacture of agricultural machinery.

Nash-Kelvinator is another example of rising volume and stationary net returns. For the June quarter, the company netted 19c per share, the same as last year, despite a notable increase in voume of business done. An inordinate spurt of tax liability, due to a rather unfavorable tax base, is responsible for this phenomenon which is rapidly becoming commonplace in the case of many wartime beneficiaries.

Eastman Kodak provides another example of the sometimes strange working of the tax factor. Net profit for the first half came to $8.52 millions, after providing $1.60 millions for possible future inventory losses and charges of $15.97 millions for taxes. For the comparable period last year, net was $7.46 millions, after charges of $1.80 and $20.85 millions respectively for the aforementioned items. Sales volume was $115.6 millions against $97.53 the year before. This would indicate that taxes last year were overstated by some 25%; despite closer conformity this year, and a considerable gain in volume, net rose only moderately. Expressed in per share earnings, the picture looks somewhat better, with profits equaling $3.38 per common against $2.94 in 1942.

First half-year results of International Nickel are indicative of fairly stationary peak volume now being transacted. Net earnings amounted to $16.15 millions equal to $1.04 per share compared with last year's $16.00 millions or $1.03 per share. Segregated into quarterly results, the showing is similar.

An extreme example of privileged tax treatment is afforded in the return of Calumet & Hecla, one of the smaller copper producers. Revenues from metal sales rose to $8.69 millions during the first half year, from $3.82 millions last year, and total income after expenses was almost doubled. Since taxes rose only to $494,000 from $383,000, net profit of $857,304 was almost twice the amount of last year's $470,269.

Clark Equipment Co., well regarded among the automotive parts manufacturers, in its first half statement clearly reflects the effect of contract cancellations. Operating income shrank to $5.64 millions from $8.43 millions last year; tax liability receded from $6.35 millions to $3.33 millions with final net amounting to $978,-671 or $3.98 per share compared with last year's $844,592 or $3.37 per share. In other words, due to recessive taxes on smaller volume, net profits actually were above those realized last year on a very substantially greater volume. This is another extreme example of the poor working of the tax law which in this particular instance would appear to kill every inducement for higher war output.

The Selected Peace-Time Leaders

(*Continued from page 509*)

reaching a high of 36⅞, the common reacted only narrowly to round 32½ and appears to meet support on setbacks. Equity per share of $48.61 considerably exceeds the current market price which is still far below the 1937 high of 69⅛ and the 1939 top of 51¼. Over the longer term, as future opportunities unfold, there should be marked appreciation possibilities.

Creole Petroleum

Controlled by Standard Oil Co. of New Jersey, this company is engaged chiefly in petroleum production in Venezuela where its operating subsidiary, the Standard Oil Co. of Venezuela, is among the largest producers. Close to five million acres are held by the company under exploration permits and concessions; its Venezuelan refinery has a daily crude oil capacity of 35,000 barrels of which 22,800 barrels is cracking capacity. Through extensive development work, output has risen almost uninterruptedly since 1925.

While no estimate of crude reserves was ever announced, it was indicated at the company's annual meeting in 1939 tht management considers rèserves sufficient for any demand which might arise during the next ten to fifteen years.

In the past, the company was primarily an exporter to Continental Europe but since the war, about 93% of the greatly reduced shipments went to Western Hemisphere countries. The dislocations brought about by submarine activity tended sharply to restrict production and earnings in 1942 when output was lowest since 1934. This situation, however, is now likely to change rapidly in favor of a marked recovery of production and shipments. With domestic crude oil production running at record levels and hardly capable of further material increase, despite sharply ascending war requirements, demand for Venezuelan petroleum and petroleum products should rise considerably from now on. Not only that, but the need for long-term conservation of domestic oil resources should permanently and beneficially affect the company's future production outlook.

	1937	1941	1942	1943
High	**38¾**	**19¾**	**19**	**29⅞**
Low	**20½**	**12½**	**11⅝**	**15¾**

Offtake at present is still somewhat fluctuating, primarily with available shipping space, but a steady uptrend is expected to develop in the near future in line with increasing tanker tonnage and mounting war demand. Viewed over the longer term, freedom from proration restrictions places the company in a strong competitive position in periods when normal marketing procedures are possible.

The company in a recent letter to stockholders proposed the acquisition of the Venezuelan assets of the Lago Petroleum Corporation in exchange for shares of Creole, to liquidate Standard Oil Co. of Venezuela and to transform Creole into an operating company. This step should be beneficial to Creole from more than one standpoint but temporary difficulties arose over the question of appraisal of the oil properties involved and stockholders will now meet in August to vote on a revised proposal. This reorganization, if effected, naturally in no way affects future prospects.

In view of preferred stock outstanding in the amount of $34.87 millions, Creole common had a high profit leverage. Venezuelan oil prices are based on U. S. prices at the Gulf. Any advance of domestic crude prices would mean a very considerable increase in per share earnings of Creole, even on basis of present restricted production. Creole common this year bettered its 1939 high of 28, rising to a top of 29⅞ and currently sells around 26½ compared with a 1937 high of 38¾. The end of the war, and with it restoration of Creole's European markets, foreshadows a definite improvement for the company; this, in the opinion of many, will be further enhanced by the trend towards greater USA imports of foreign petroleum in the interest of conservation of our own resources. Creole is in a favored position to profit therefrom.

National Cash Register

The world's largest manufacturer of cash registers, this company is probably doing about 90% of such business in the United States, in normal years. It also makes accounting machines, adding typewriters and other special office machines, representing between 20% and 25% of its domestic sales. Distribution is world-wide with close to 50% of sales normally going abroad. The war of course has severely curtailed export activities which in 1941 returned about 21% of net. While war work for the duration will probably compensate for the suspension of normal output, high taxes and rising costs over the nearer term may prevent any real earnings progress. Long range prospects, however, are promising. Apart from the very considerable deferred demand for cash registers, production of which was discontinued during the second half of 1942, the post-war export potential is held to be ex-

	1937	1941	1942	1943
High	**38⅞**	**14⅜**	**20**	**28⅞**
Low	**13**	**10**	**11**	**18⅞**

cellent. To meet increasing war demands, numerous changes had to be made in production facilities, but many of these are easily adaptable to normal production, hence reconversion should be relatively simple and inexpensive.

Financially, the corporation is favorably situated to take advantage of post-war opportunities. Working capital has been steadily growing and currently amounts to \$27.79 millions. Book value per share is \$23.27 and net quick assets amount to \$14.36 per share, compared with a recent market price for the common of about 26. The latter has held well during the late market reversal and compares with the year's high of 28⅞. This exceeds the 1939 high of 26¼ but is still under the 1937 top of 38⅞. Filling the big gap in the domestic market and rebuilding its former big export business should mean an exceedingly profitable period of several years for the company, once normal business is again possible.

American Viscose Corporation

As first ranking unit of the rayon industry and largest producer of viscose yarn and staple fibre with an annual production capacity of 225 million pounds, this company has been spearheading the industry's amazing growth during recent years. The bigness of the firm is emphasized by the fact that it probably can and does produce more rayon than duPont and Celanese, its two nearest competitors, combined. The greatest problem, thus far, has not been sales but how to fill the steadily mounting demand. In view of the long-term growth prospects inherent in the industry, the stock is exceptionally attractive for the long pull on many counts, to wit: 1) the company's outstanding position in the industry; 2) probability of further cost reduction, resulting in higher profit margins, on completion of the compny's extensive rehabilitation and expansion program; 3) absence of reconversion problems; 4) exceptionally able management; 5) exceptionally strong financial position; 6) secular growth of rayon use stimulated by war-time research.

Despite repeated price reductions, even during war time, earnings of Viscose have been steadily on the upgrade, notwithstanding higher taxes and rising costs. Net

	1941	1942	1943
High	29½	33½	47½
Low	23½	22	32

for the June quarter was 82c per share against 79c in the same period last year; for the first half year, net earnings came to \$1.73 per share against \$1.53 in 1943. On basis of this showing, earnings for the entire year may again approach the high levels of 1940/41, before war-time taxes began to eat heavily into net. The excellent results so far this year reflect primarily expanded production and were achieved despite the tax impediment. Marketwise, the stock has proved resistant against pressure with current quotations holding around 44½, only modestly off the year's high of 47½, which at the same time represents the highest point reached since its listing in 1941. Yielding almost 5%, the stock can be recommended for income as well as appreciation.

In the timing of purchases of any or all of the ten stocks analyzed in this article, readers are advised to follow the counsel given in the market analysis by A. T. Miller in the forepart of each issue.

As I See It!

(*Continued from page* 501)

families and the Jews had contributed enormously to science, medicine, music, art, and the general culture of that country. Nor had they been sparing of their lives, their efforts, or in the giving of their wealth for the fatherland. The German Jew who migrated to foreign shores has on the whole been a credit to Germany and had had a great deal to do with the respect in which the German nation has been held by other peoples.

Germany for generations will suffer from the blind hate which caused her to burn the works of science, medicine, music and art—while she has enriched the countries which have given asylum to the noted refugees from her tyranny.

Soon the advantages that Germany gained in the first instance by her chicanery, trickery and dishonest thinking will have run their course; her failure an object lesson to the world that it is *truth*, not lies — *love*, not hate — that builds empires and leads to victory on the battlefield on that final day!

Germany will suffer the fate of those other countries which in the past have followed a similar course, like Spain and Czarist Russia, which withered and died ingloriously. History has repeatedly shown that man cannot build soundly on the dead bodies of those they hate, because corpses have a way of disintegrating into dust and shaking the edifice.

The reason lies in the plan of life itself—that the man who digs a ditch for others usually falls into it himself; and those who cast bread upon the waters receive a compensation far beyond the effort expended.

How fortunate we are to have seen the German tragedy working itself out before our eyes, so that the course to follow is clearly defined—the course that will make us great as a people and hence as a nation. On the horizon looms a new world in which neither fools nor charlatans should have a place of power.

Having received the blessings of a bountiful and beautiful land, let's turn our thoughts toward building a really civilized world—in which the spiritual elements will dominate. It is the course we set that will establish the precedent for those who come after us. For the peace of the world will, after all, depend upon our works upon us.

"Build thee more stately mansions,
O my Soul,
As the swift seasons roll, leave
thy low vaulted past,
Build each new temple nobler
than the last
Till thou at length are free,
Leaving thy outgrown shell by
Life's unresting sea."
—"The Chambered Nautilus"
Oliver Wendell Holmes

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